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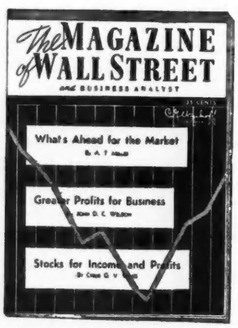

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With The Editors

Golden Dregs

THE dismal warning of Europe's state came several years ago when capital, like rats from a sinking ship, began to pour out of a continent. Men began by sending away the possessions from which they could most easily live apart—and they are ending by packing off their children to Canada and Australia.

Billions of dollars have come into the United States in a stream that has never stopped, only quickened each time war moved closer or a new country was added to the list of cadavers. It came in gold, which we received wonderingly at first, then grudgingly, suspicious of the flimflam eventually to be worked on us. Until lately, few could accept it purely as something which, though called by the cold name capital, meant to individuals and nations the sole chance to rehabilitate themselves after the storm had passed. Custody of that gold is one of our big responsibilities to the rest of the world today.

The most recent shipment to reach New York is a strange one, sign that a phase of the capital flight is near an end. Instead of the bars customarily used in international transactions, the gold comes in coins, from England, Yugoslavia, the West Indies. Not for years has any sizable quantity of gold coins crossed the ocean, and most of them, like the English sovereigns, have not been minted since before the last war.

When the rich hoard they use gold bars; only the relatively poor are restricted to coins because of their smaller unit value. These are the dregs of the capital barrel, indication that it is almost empty. Stockings and sugar bowls are handing over their trust to the United States Government. The funds that stay in dangerous areas today are those absolutely needed there or unable to move.

One meaning is that Europe is finally desperate, rich and poor, international bankers and factory hands, resigned to the fact that the decisions being reached must go all the way. There is a hint of climax, and of the part America must play as banker for these people. As for the rather unusual shipment from the West Indies—let's hope that is not a hint too.

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

Economic Mobilization of the Western Hemisphere

By JOHN LLOYD

What War Taxes Mean to Investors

By HENRY STEINMETZ

Aircraft Boom in the Automobile Industry?

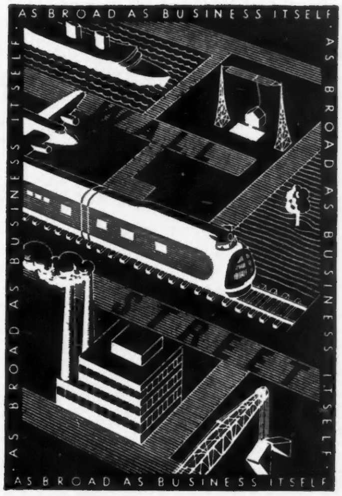
By STANLEY DEVLIN

Nesmith

Activity in steel, kingpin of durable goods production, gives a pre-view of the coming armament boom. Today's dynamic industrial stimulus, however, is anticipatory private buying. Large and urgent orders are being placed for equipment because it can't be had later when Government needs will have priority. What this means to Third Quarter Business is forecast in the article beginning on page 338.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



The Trend of Events

TIME IS RUNNING OUT . . . Our people are unanimously agreed on the need for vast armaments, at no matter what cost. But beyond this we are torn and weakened by disagreement as to what our foreign policy should be and how it should be carried out.

It is imperative that we stop confusing ourselves with bickerings over *words*—such as "neutrality" and "non-belligerency" and "war"—and look rationally at *things*.

We have watched Hitler for seven years and have not been ignorant of the threat that he represents. Why have we almost overnight been gripped at this particular time with a deep fear for our security?

The answer is simple. The future status of the British Navy has become uncertain. In the hands of a power without aims which threaten us, this huge fleet for generations has been our first line of western hemisphere defense. Our people know instinctively that we will be in peril if it is destroyed or surrendered.

What should we do about it? This urgent issue may be settled in a matter of weeks—but it will take us years to build an adequate navy. Again the answer appears simple. Protection of our all-important first line of defense—our second line being woefully weak today and for some time to come—calls for applying all possible support to the defense of Great Britain.

But at this point we begin to gag on *words*. We want the British to make a successful stand and we want to help them—up to and within vague limits that stop "short of war." We want, in short, to have our cake and eat it too. We are selling munitions to the British. Regardless of existing law, we would not sell them to the Axis powers. By means of a devious technicality, the Administration is selling the regular Army's "surplus" equipment to the British. It would not sell any of it to the Axis powers.

We may kid ourselves with this half-in, half-out stuff—but Hitler and Mussolini are not deluded. We have never had their good will, we do not have it now and we will not have it in the future. To them we are an enemy nation, non-belligerent for the present. They hope we will remain so, thus denying our maximum aid to England. If and when they have disposed of the British, they will be in a position to turn their attention to us at a convenient time of their own choosing.

* * *

Today we have an option to play a more active and forceful role in this war, with or without formal declaration, or not to do so. Tomorrow, if the British lose, the option will be Hitler's, not ours. In that case, completely isolated, we could only dig in feverishly, as the British are now doing, striving desperately to repair within a

short period the accumulated weaknesses of years, striving desperately to build adequate military, economic and political defenses against certain aggressive pressure.

Looking at war as a *thing* rather than a *word,* we are already partially in and we are not going to back out because the President's half-way policy is favored by a big majority of the voters and the fate of Great Britain will almost certainly be decided before Mr. Roosevelt's term expires. The practical question—which only the people can decide—is whether our best interests now call or do not call for us to go all the way in.

By going all the way, could we provide quicker and more effective aid to Great Britain? The answer is yes, but within quite obvious limitations. Time is of the essence. We could not send an army to England in time to be of any earthly use, for we do not have such a force. Even if we dared pull our Navy out of the Pacific, Britain does not need its help. With probable addition of the bulk of the French fleet, she will have a wide margin of naval superiority. If naval power can save her, she will be saved. She does desperately need airplanes and pilots. Even here, within the time available, we could provide only a quite small and not well equipped force.

What, then, could be gained? Aside from tossing our present puny Army air force into the balance, there is only one possible gain—but it could be important to the British and even more important to us. The immediate danger to us is not Hitler but paralyzing political indecision and timidity, half-measures and complacency in domestic policy and armament. We are groping along the same road—too little, too late—that ruined France and that has brought Britain to the brink. We want armaments without interference with civilian comforts. We expect dollars to do the work that only men and machines can do working to maximum capacity.

If anything can shake Washington out of this paralysis, force us to get down to the brass tacks of *things* and speed the all-essential armament effort, it is probably to go all the way into war immediately. Again we emphasize, the decision can only be made by the American people, acting through their elected representatives. We frankly confess that, whatever the apparent cold logic of the situation as we have outlined it, our own mind is undecided.

Today, however, despite the billions being voted for future armaments, the *thing* is that, at a liberal estimate, less than 5 per cent of our production effort is geared to armaments. There will be no security for the western hemisphere unless this can be multiplied many times and within a matter of months. There is no safety for us in words, slogans, dollars and paper plans.

* * *

As reported by our Washington correspondent on following pages, the real bottlenecks in our defense program are not machine tools, airplane engines, tin or lack of skilled mechanics—but incomplete plans, divided counsel and shifting policy at the top of the program in Washington. These defects and inadequacies are not the fault of any individual. They were present in our 1917-1918 effort. Running through the entire bureaucratic set-up, they would inevitably plague any democratic government forced suddenly to jump into the strange business of armament on a tremendous scale.

But we have a right to insist that wastage of time and effort be cut to an excusable minimum, that the President and the brass hats of the Army and Navy realistically put first things first, and that both political parties stop playing politics with foreign policy. The fact is that as regards the effort and the sacrifices involved in an adequate defense program, American public opinion for some weeks has been running ahead of Mr. Roosevelt and still farther ahead of his isolationist opponents among both Republicans and Democrats.

The President's trial balloon on the subject of compulsory, selective service was a waste of time. This principle is unquestionably favored by a big majority of our people. The people also favor and demand full teamwork from labor and industry, compulsory if it proves necessary. They don't want any profiteering by industry or labor and that goes too for political profiteering. Mr. Roosevelt has far greater powers of law and leadership than he is now using. We venture to suggest to him that, while some people disagree with him on foreign policy, all of the people will cheerfully follow him all the way in any effort centered on defense.

We don't need and cannot effectively train more than a fraction of the manpower provided in the compulsory service bill independently introduced by Senator Burke, Democrat, and Representative Wadsworth, Republican; and the proposed eight-month training period is far too short. Effective modern armies are made up largely of specialized technicians. Poorly trained mass is worse than useless. We should aim at a thoroughly trained, mechanized and motorized force of some 600,000 to 700,000 men, assembled and maintained through compulsory, selective service.

As this or any subsequent larger force can only be built around the nucleus of the present regular Army, the first thing is to put that in the best possible shape in the fastest possible time. Putting first things first, there are two essentials, as we see it: (1) adopt a fair and adequate selective service law immediately; (2) since no military equipment can ever be the ultimate in perfection, freeze the best available designs of all types of equipment and immediately place orders—especially for aircraft—in substantial volume. If a show-down should come, a thousand 1940 bombers would be invaluable while ten thousand better ships on the planning boards for 1941 or 1942 would not be worth a dime.

We have the largest and finest mass-producing facilities in the world, capable of turning out armaments in tremendous quantity. But these industries can't make plans, tool up or swing into national defense production until they have specific orders to work on.

Mr. President, how many such orders have been placed? The people want to know. The "military secrecy" stuff is all right within proper limits—but not, as it was in England under Chamberlain, as a blind for inefficiency, delay and complacency.

As I See It!

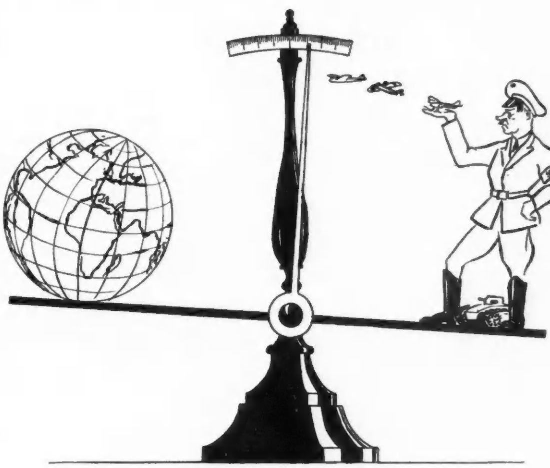
BY CHARLES BENEDICT

FREE MEN OR SLAVES

THE age old cry of "Liberty or Death" has ever been the clarion call of men who were more than common clay. Rivers of blood have been spilled in this struggle to uphold the dignity of mankind. Today we are again facing a critical period as free men in which we can readily lose our identity as human beings—to be no better than clods of earth—if Hitler has his way.

To crawl as a worm in a Hitlerian age is not my idea of living. And yet, that is what we must expect if the Nazis are permitted to set their heavy foot on the neck of mankind.

Let us not be blinded to the truth. The pupil has outstripped his master—Lenin. But not in behalf of the people. The crafty Nazis have adopted the revolutionary technique of Lenin to establish absolutism—to make themselves masters of the world and place the people in slavery under the yoke of Nazi taskmasters.



For the Russian Revolution, designed to elevate the proletariat, was a failure because of its lack of psychological realism — its misconception of the average man's capacity. It floundered — chaotic and helpless for lack of industrial and economic organization and generalship. Under Stalin—who realized this—Russia became an absolutism with terrorism as great as that under Ivan the Terrible,—and the people became his slaves.

In Germany, fearful of the trend toward Communism, the ruling classes, including the army, industrialists and financiers, backed the Fascistic program of the Nazis. In 1934, after the blood purge, they came into control and through the efforts of Goering succeeded in establishing absolutism in Germany under the guise of Nazism —the so-called revolution of the middle classes.

Thus both absolutisms—the Nazis and Communists everywhere—found it easy to join hands. While the Communists played the Nazis' game, Hitler gained strength and left Stalin far behind.

And now, the victory of German arms places the entire world in danger. In adopting the ancient practice of the barbarian conquerors who destroyed and dispersed the best elements in the countries they subdued, enslaving or selling the rest into slavery, we are given a preview of Nazi intentions. A simple illustration, symbolic of their policy, was the edict issued when Holland was overrun—that the Dutch beer was to be served to German officers and soldiers only! The next step (already in progress) is the taking over of all industry and capital, and placing it in German hands.

The latest blow is Hitler's staggering demands on France — its land, — its wealth—and the complete subjugation and degradation of the French people who will be called upon to supply the arms with which to destroy their erstwhile friends in England. And England still pledged to redeem France!

The French collapse fell with stupefying effect upon the world, and the Nazi success in spite of its great efficiency looms contemptuously weak because the evidence is that the Nazi victory was not won against Frenchmen prepared to fight—but against Frenchmen rendered helpless by their own leaders—a France destroyed from within, guarded by a Maginot Line that several years ago was known to be obsolete against modern implements of war—and which the French found practically disarmed at the time of their first mobilization in 1937! A situation that the politicians did not dare to let the French people know about. Just as today they are kept in ignorance of the true state of their subjection to Germany.

It was inevitable that France should surrender, in spite of Paul Reynaud's brave words, when it became known that Pierre Laval was the power behind the aged and pitifully broken Marshal Petain—the Hindenburg of France. It is Pierre Laval who as Premier is spoken of in France as having wrought (*Please turn to page* 380)

Safest Market Course Now

The market reflects a much increased psychological immunity to shocking news from Europe and the May panic will not be repeated. Nevertheless further tests are ahead and caution remains advisable in investment and speculative policy.

BY A. T. MILLER

THE market is once more in a watchful waiting mood, apparently unperturbed by epochal world developments and equally apathetic to sharply rising domestic business activity. Excepting a brief and quickly erased dip on news of the French capitulation on Monday, June 17, fluctuation of the averages has tended to narrow and the past week brought a progressive shrinkage of volume.

It is hard to imagine any development which could really surprise this market. The mood is one of stark realism and no contingency is too fantastic to be coolly considered—including the fate of the British Empire. With the margin position pared down to the smallest total since compilation of the weekly figures was started and with increased psychological immunity to shocking war events, it is to be doubted that anything like the May panic can be repeated.

On the other hand, we are unable to see an adequate basis for significant additional recovery of values over the immediate future; and if this view is correct the alternatives are a do nothing market or an eventual further test of resistance on the down side.

As a matter of fact, ever since the culmination of the 1937-1938 deflation, the market has tended to spend long periods of time in indecision, waiting for some enlightening clue—and then to adjust values sharply up or down in one short and concentrated thrust. It has now been under the spell of this war for approximately nine months. During this period the two "major" moves in scope were a 17-point advance in our industrial average concentrated in ten days after the war started and a 28-point decline in the first ten days following the German invasion of Holland and Belgium. By all past standards, "major trend" was a matter of time duration as well as scope of price movement. It would seem somewhat absurd to attempt to deal with this new market technique in terms of the old terminology of bull and bear markets.

As this is written, France has passed out of the picture as a factor of market calculation and uncertainty, the expected German attack on England probably cannot develop immediately and during this interval of relative quiet in the foreign scene attention centers on the Republican National Convention.

This analysis is not concerned with politics, but is concerned with the possible market effects of political developments. Of the various Republican candidates, Mr. Wendell Willkie clearly has the greatest appeal among business men and investors. Should he be nominated, the market effect, in our opinion, would be favorable as far as it goes. We rather doubt that, taken alone, it could go very far. There are many other factors of uncertainty operating, apart from domestic politics. Moreover, if the opposing candidates are Roosevelt and Willkie—which can become a certainty only after both conventions are out of the way—it will take some time before their relative chances of election can be appraised realistically by the modern and perfected poll technique.

Meanwhile, regardless of the political nominees, the world — and the United States — is confronted with a situation for which "crisis" is an inadequate word. Never was the future more obscure and never were its possible fruits more disturbing.

Can England hold out? Will this country yet go all the way into the war? If Hitler is confronted with a stalemate, due to firm British resistance and increasing help from the United States, what are the prospects for a negotiated peace? If England is knocked out, can some kind of British Empire war of blockade continue? If Hitler wins a complete victory, where does that leave us? Are we not in any event heading toward a considerable measure of totalitarian government, at least for the duration of the crisis? If so, however bullish our armament program may be for business activity, can it be anywhere near equally bullish for security values?

Such are some of the questions being asked on all sides, and very few can be answered. One of these is the last one. The inevitable logic of events will force us to more and more Government economic controls, regardless of whether a Democratic or Republican regime is elected next November. Although Senate action in writing heavy excess profits taxes into the pending stop-

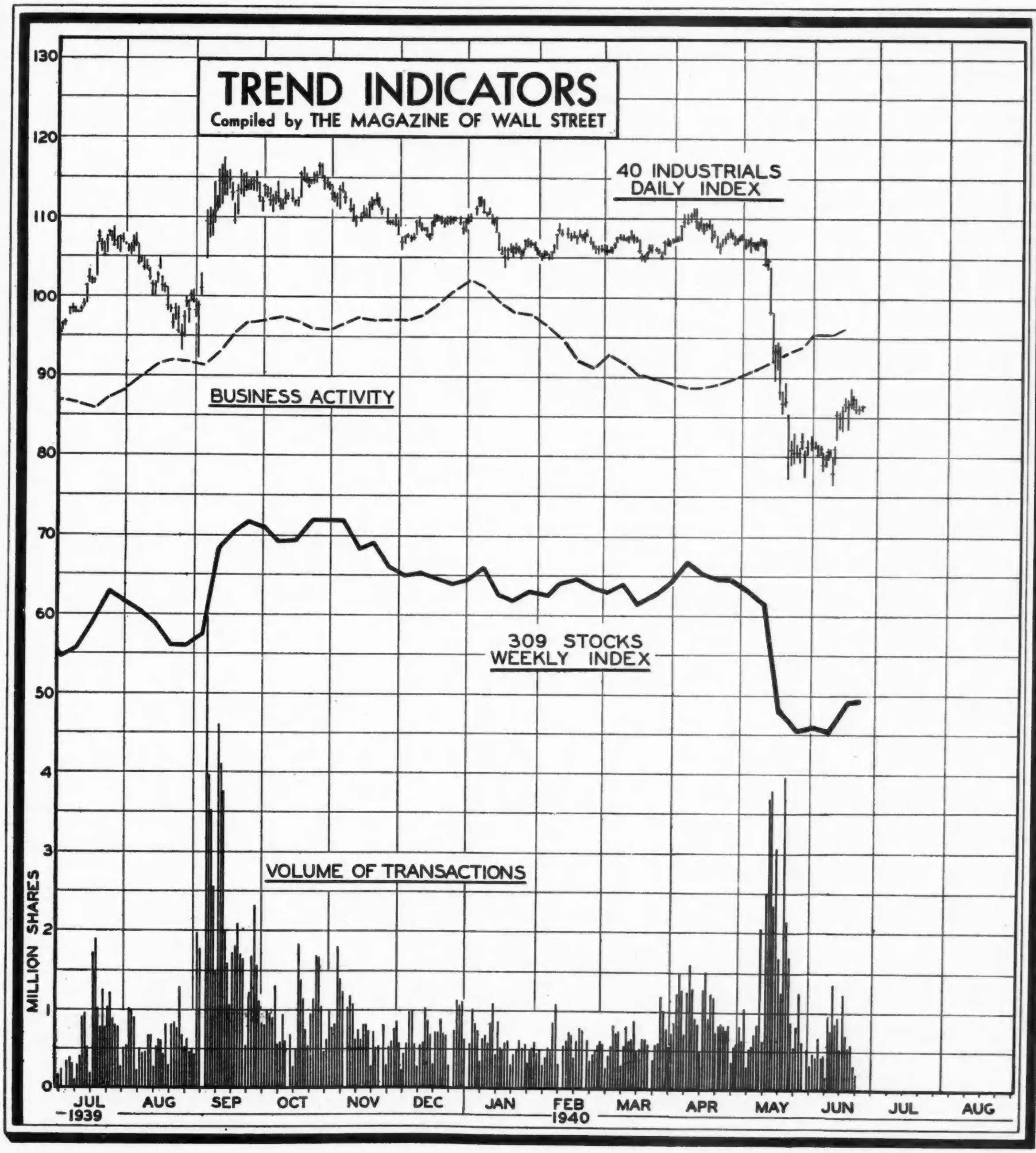
gap tax bill will very likely be nullified in conference, on Administration pressure, the issue will not die. The principle of selective, compulsory military service will inevitably be adopted before long and the natural sequel will be still greater political pressure for special taxes under which business will share the armament burden.

All values are relative, and in the current market we already see the tax threat being taken into account in some shifting of group emphasis. This is undoubtedly a goodly part of the explanation of recent reduced demand for the aircraft shares. In contrast, the position of rails and utilities would be relatively advantageous, so far as special taxes are concerned. Both groups have recently fared better in the market than the industrial average, and a vigorous recovery has evidenced itself in many second grade and speculative rail and utility bonds.

In general investment policy we hold to the position taken previously: Selective scale-down buying if one is entirely in cash; establishment of partial liquidity by sale of least desirable cyclical holdings, if one is fully invested; carry no position on margin or bank loan; sit tight if safe income securities exclusively are held outright.

However, one might be on guard against two surprises, either one of which could favor the market. The expert consensus is just as sure that England can't hold out as it was sure France could. It may well prove wrong. There is also a consensus that Mr. Roosevelt is a certain third term candidate. It *could* be wrong.

—Monday, June 24.



√ **Far-reaching trade and industrial shifts can be expected as we head into the developing armament boom which has already touched off the second forward-buying splurge since the war began.**

Third Quarter Business Outlook

BY WARD GATES

IN the May 4 issue of THE MAGAZINE OF WALL STREET the business advance now in brisk progress was forecast, with an estimate that the Federal Reserve Board index of industrial production would rise to somewhere within the range 110-115 by July, as compared with the April recession low of 102. It was added that the possibility of variation from this estimated level seemed greatest on the side of advance.

As this is written, the weekly business indexes indicate a current production equivalent to approximately the 115 level, Reserve Board index; and confidential data on new orders flowing into the manufacturing industries—especially orders for capital goods—indicate the probable near-term development of boom characteristics such as were seen in the fourth quarter of last year.

Therefore, as the situation stands today, it is probable that July activity—with allowance for seasonal adjustment—will approximate the range 120-123, Reserve Board index; and it is readily possible, though by no means certain, that before autumn this index will top the all time high of 128 recorded last December.

As need hardly be emphasized, the major uncertainty affecting all near term business calculations is the future course of the war. The French disaster apparently has had no deflationary effect upon total business activity and the volume of new orders—but this is only because it seems to be assured that the British will take over all, or virtually all, of the French war orders now on our books.

Naturally, the biggest question mark in all business minds is the anticipated Nazi campaign against the British Isles. Will it succeed? Will it fail? How long will the outcome hang in the balance? No one—and certainly not this writer—can throw any light on this vital matter. We can, however, set up several war contingencies and project the probable business consequences of each.

If the war continues, without early decision as to the fate of England, there should be no reversal of the highly favorable third quarter business pattern outlined at the start of this article.

If the German forces get a killing hold on the heart of the British Empire in the near future, the immediate—and probably the intermediate—business consequences would be deflationary. There would be valid doubt whether all British war orders would be taken over, as is and on the same terms, for the U. S. armament program. There would be a relapse in domestic new orders, coupled with an unpredictable degree of disorganization in commodity markets and world trade channels.

If, rather than a conquest of England, there is a negotiated peace this summer—a contingency which the writer regards as highly improbable—the short term and intermediate business effects would also be bearish, for such a peace would be on Hitler's terms.

Only a successful British stand, carrying with it the implication of ultimate Nazi defeat through economic exhaustion, could either reduce the scope of our armament program or lessen the pace of its development. Under any other contingency it is certain to expand far beyond its present outline and to engage, ultimately, our industrial facilities at capacity. Of itself, however, this program cannot develop enough near term momentum to be a direct source of any major portion of third quarter business volume.

The Bullish Factors

The impulses lifting business activity at present arise in part from normal economic relationships, in part from direct and indirect war influences. Ever since 1937-1938 depression adjustments were completed, in the late spring of 1938, the major business trend has been upward—supported by bullish monetary-credit factors which the Administration has studiously avoided neutralizing or checking. Over this entire period aggregate consumer demand has shown a persistent rising tendency, with the occasional set-backs both mild and temporary.

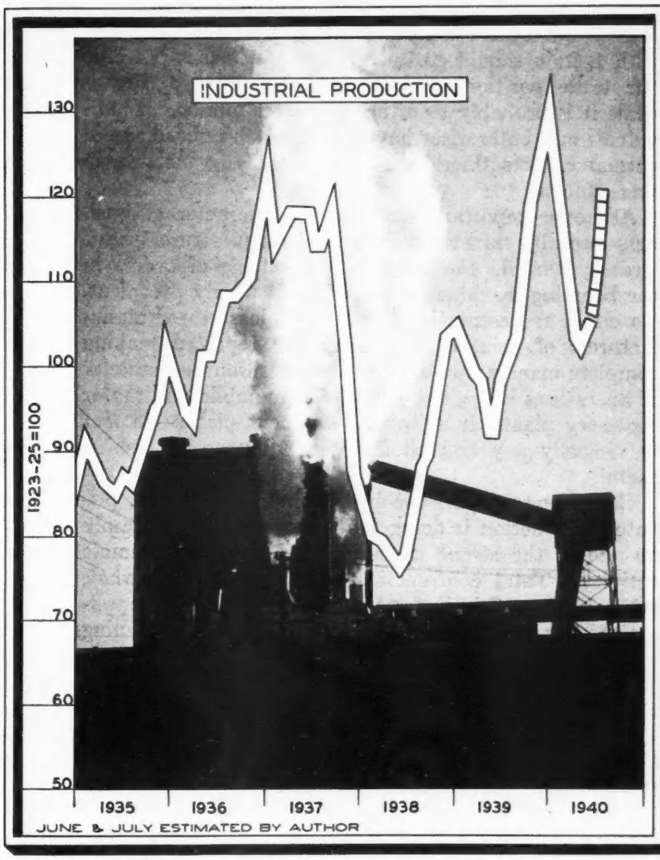
With this upward-slanting consumption line as an axis, new orders and production have swung alternately above and below it—developing temporary excess in

the autumn of 1938, which was corrected by a five-month recession in the forepart of 1939; and developing excess again on the advance late in 1939, which was corrected by reaction completed within the first four months of this year.

Thus for more than two years of what appears to be a major expansion cycle in business activity, of unpredictable ultimate duration, these irregular trends of consumption, new orders and production have shown a succession of rising tops and bottoms. With underlying economic factors favorable, inflationary war influences greatly augmented the rise in the latter part of last year, tended to shorten and limit the recession in the forepart of this year and are now again contributing powerfully to the renewed upward spiral.

In the business rise which followed the outbreak of war last September, the dynamic factor was anticipatory domestic forward buying, which greatly exceeded the total volume of war orders since placed, large though the latter factor is. We have a similar situation now, with expanded forward buying in anticipation of United States armament spending on a rising scale.

As would naturally be expected, the current new orders rush centers far more dynamically in capital goods than in either consumption goods or consumers' durable goods. The reason is that rising armament and war demands can be expected shortly to preempt capital goods producing facilities, while having secondary and slower impact upon consumer demand for general merchandise and non-essential durable goods.



Although total business activity is still well below the peak reached in the fourth quarter, the evidence is clear that volume of new orders for capital goods has already made up all ground lost in the recession—and a bit more. The secondary stimulus of the high level of capital goods activity—which is notably reflected in the current large steel output—is already lifting consumer demand, which, especially as regards non-essential durable goods, had suffered a considerable set-back in May, due to the combination of bad weather and the psychological shock of the successful German drive in western Europe.

We thus have a spiral in motion which, barring deflationary war developments, is capable of carrying industrial production within a few months above the peak of last autumn and thence up to the limit of presently available capacity. This capacity limit of existing facilities may be estimated roughly at the equivalent of a Reserve Board production index level of 140. Thus calculated, a production rise of approximately 10 per cent above the peak reached last December would take us to capacity. These relationships are worth pondering as one considers the economic implications of our tremendous domestic armament program which is likely to snowball into far bigger proportions as time goes on.

What it means is this: To build the armaments that public opinion demands, we shall have to expand many industrial plants greatly—thereby further stimulating economic activity via the route of capital goods—and we may quite possibly, if not probably, find ourselves faced with the necessity of diverting some portion of industrial capacity from the serving of non-essential civilian needs to essential armament needs. This, however, will not happen overnight, nor within the third quarter.

Nevertheless our economy has already entered a transitional phase involving important trade and industrial shifts. Even though the net result is enlarged economic activity, the disparities and unbalance are increasing.

Perhaps the most important single shift is that in the relative positions of farm and industrial regions in terms of purchasing power and trade. Reversing the situation of recent years, trade gains from here on will be most pronounced in heavy industry areas. Despite Federal subsidies, it is hard to see anything like prosperity for American agriculture as foreign markets are more and more cut off or restricted. To be sure, Europe will need to import huge quantities of food but it is by no means certain—in fact it is quite doubtful—that we will supply it. If England survives and maintains her blockade, we will not ship food to the Continent. If we should be drawn into the war, we will not feed a Hitler-dominated Europe. If England goes under and Germany rules the roost, she can probably get food elsewhere.

Spread of the war has already shut us out of markets which normally accounted for between $600,000,000 and $700,000,000 of exports annually. The offset of heavy

French war orders has now been lost. If our war trade with Britain should go by the board, which is possible, our trade position would indeed be gloomy. Meanwhile it is probably true that a greater number of individuals and enterprises have been hurt by shrinkage in normal exports than have been helped by increase in war exports.

At home important shifts in the character of business done by numerous individual manufacturers have already started. For example, sub-letting of orders in the booming machine tool industry is widely prevalent. To cite a representative instance, at least three manufacturers of printing machinery are reported making complete machine tools. Similar transition in character of operations is beginning in the automobile and motor accessory plants, in railroad equipment plants—in fact in virtually any and all factories equipped to fashion metal.

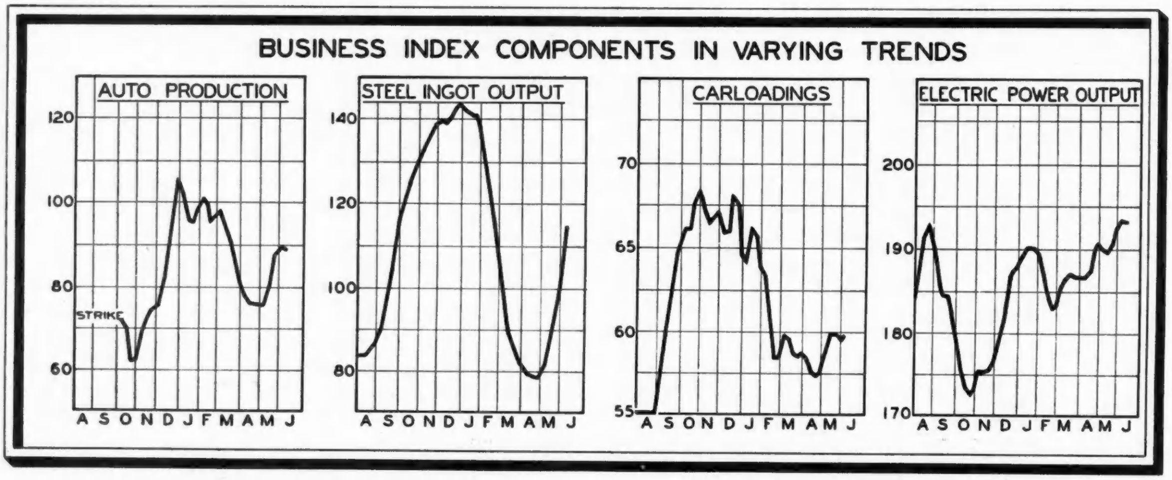
Contrary to experience in the first World War, private construction is doing fairly well and will certainly be one of the strong spots in third quarter economic activity. Total contract awards are down somewhat, due to falling off in Federal public works. Recent applications for F H A mortgage loans have been running just above $100,000,000 a month, indicating high residential building activity throughout the summer. Industrial construction is in a strong upward trend, and the national defense program will assure further large gains in this classification, with a goodly bit of it probably financed by Government money.

Among more prominent industries the third quarter boom spots will be steel, machinery and machine tools, aircraft, shipbuilding and chemicals. Aside from seasonally lower situations—notably the automobile industry—there are relatively few "weak sisters" in the picture. Like the first one, it will again carry the industry to capacity. Differing from the first one, it has a better chance of staying up there for a while. The expanding demand has been broadly diversified but to date rests only in minor part upon national defense work. Rail equipment buying is increasing and bids fair to produce large steel demands. Finally, the motor industry—usually the biggest steel consumer—will shortly begin to place substantial orders for 1941 model production. In short—again barring an early British disaster—still further expansion of steel activity is assured.

Considering the substantial deflation of security values since early May—always a factor in automobile demand—motor sales are at a good level, running some 30 per cent higher than a year ago and having recovered nicely from a temporary downturn in mid-May when the weather and the shock of German military successes were at their worst.

Stocks in the hands of dealers, however, are reported to be the highest on record for this season, a greater than seasonal decline in factory output has already apparently begun and production over the early future may—and probably will—spiral down into the model changeover period much more rapidly than seasonal allowances call for—as such variation is figured in most present business indexes. The changeover period is expected to be the longest in some years—possibly six to seven weeks—due both to more extensive model changes than were made in the 1940 cars and to certain re-tooling for national defense orders. There is a possibility that the 1941 models will be "frozen" for two seasons, with trade results somewhat conjectural.

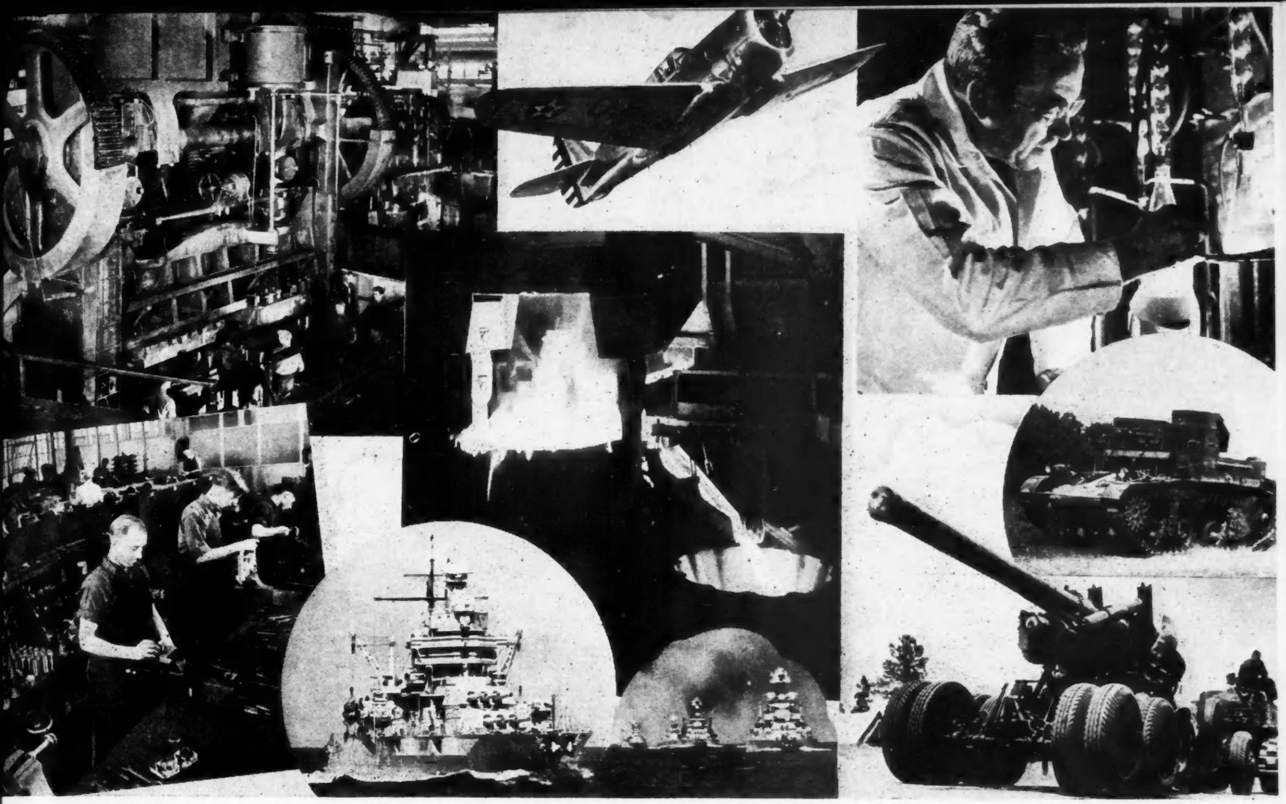
Like steel, automobile production has a heavy weight in the Reserve Board production index and in various business indexes but, due to changed production habits



They include motion pictures, liquors, farm and office equipments. In the middle range and pointing up are railway equipment, railway freight movement, textiles and retail trade.

Nothing more dramatically reflects the capital goods leadership in the present industrial expansion than the recent sharp rise in the steel operating rate to current figure of 87 per cent of capacity. This is the second steel boom since the war broke out last September. in the industry, proper statistical calculation of the seasonal variations in output has been a headache in recent years and continues so. Actually, the industry has achieved, deliberately, the notable feat of maintaining production at a high and remarkably stable level for three successive quarters, such ironing out of the former more erratic variations from month to month being in the interest both of employees and profits.

Thus output of cars and (*Please turn to page* 382)



Photos by Wide World, Briggs Manufacturing, Monarch Machine Tool, Republic Steel, Curtiss Wright.

Fitting Investment Strategy to the Coming War Economy

BY JOHN LLOYD

CONFUSION among investors is at a new high today. It is not only a question whether to own stocks or to hold cash. That particular doubt always causes a division of opinion and it is a good thing it does. The confusion now prevailing is caused by a feeling that there is nothing to which a broad policy may be fixed—no fundamental, underlying fact that governs all the minor decisions.

There is little need to ask the reader to consider the unique difficulties of the times. With a war that conceals possible world catastrophes going on, with an economy that has done little better than creak along for a decade, unknown potentialities for a boom in this country's armament plans and only too well-known dangers of a disastrous sequel to that boom—it is no wonder that the problem of capital management is an awesome one.

For many the solution has come to be negative. Safety at any cost is their watchword, and the result is the tremendous amount of idle capital that forms the explanation of many other national ills.

To those who refuse such an attitude as an admission not only of inability but of unwillingness to cope with the trend of affairs, there is beginning to appear a glimmer of what must be their ruling policy. They are no nearer some ideal ready-made guide to automatic profits, but they are approaching an understanding of their base of operations. Whether already owning stocks or merely preparing for eventual action, they are tightening their grip on a reality that inspires their confidence. And, although the conception is no novelty, it is not an ordinary one for Americans to form.

This country has always associated a boom with luxury buying. Back in 1929 it was radios and automobiles—or furs and jewelry, if extremes need be cited. During the World War boom it was silk shirts for the wage earners and private railway cars for their bosses. Even a period of ordinary mild prosperity has come to mean a new refrigerator for most Americans, or at least new tires on the old car.

If prosperity is to increase, aided by a struggle to step up production for national defense, it will be on the surface much the same old process. Fewer unemployed, higher wages, a larger national income, perhaps new highs in the business indexes. But the investor alive to the possibilities in the current situation can no longer assume that he is on a familiar path from that point on. There is a fundamental difference between this and even the last war prosperity period.

The nation is facing a call for a tremendous increase in armament production. The national income and total capacity to turn out goods will without the slightest doubt expand, unless the effort should be abandoned. But this is a slow process, and almost overnight the economy must respond with tangible results. Now if total production is to expand only gradually, as it must, and if armament production is to boom, then it must obviously be at the expense of some other part of national output. The logical, inescapable place to contract is in consumption goods, since any other decreases would hamper the defense effort.

Industrial Distinctions

Based Tentatively on Importance In an Armament Economy

I. Direct War Industries

Machinery, tools — Steel, armored plate, shell
Shipbuilding
Electrical equipment, boilers, engines
Copper fabricating — Metals
Rail equipment, heavy ordnance
Trucks, motorcycles — Tanks, armored vehicles
Alloy steels — Aircraft, instruments, accessories
Powder, explosives, special chemicals
Guns, instruments
Medicines, textiles, foods, shoes

II. Civilian and Industrial Essentials

Food processing and canning
Dairy products — Chemicals — Petroleum
Drugs, specialties — Textiles—cotton and rayon
Sugar — Meat packing — Milling
Retail trade — Coal
Public utilities — Railroads — Shoes

III. Non-essentials and Luxuries

Motion pictures
Radio, phonographs and records
Silk, furs, jewelry — Luxury merchandising
Leather goods — Beverages—soft — Liquors
Tires and tubes — Cosmetics
Vacuum cleaners, refrigerators, washing machines, etc.
Automobiles, accessories — Outboard motors
Cake, pastry, food luxuries
Residential building supplies
Furniture and floor coverings

One after another we have seen the nations of Europe go through this experience. Once called upon for a war effort, as Germany was seven years ago and England only recently, the consumers were the chief contributors to the fund of excess production. They were the only ones who could contribute, and this they did not so vitally with their tax payments as with their deprivations.

The outside public is aware that butter is being rationed in these countries, and perhaps conscious that it all has a connection with the night and day effort of factories to keep up with war needs. But more important in war or war preparation are the consumer's purchasers of durable goods, the things he buys only once in several years. These are the goods that compete with guns and planes and tanks in the nation's productive capacity. When the preparedness program in the United States begins to bump up against our capacity to produce, it will be exactly this class of consumption that will be curtailed.

The last precedent implies that war or armament plans will mean less sugar for the consumer, possibly a coal shortage. The facts today, however, suggest to the thoughtful investor that these consequences, even if they should by chance occur, will be secondary and for him comparatively meaningless. *The significant investment distinction today is between the essential and the non-essential in national output.*

For the purpose of a temporary and gigantic effort such as the United States appears to be entering, a loaf of bread is an essential and an electric toaster is a non-essential. An electric lathe and a vacuum cleaner present the same contrast. The figures on consumers' durable goods expenditures, estimates by the Federal Reserve Board, show that last year seven billion dollars was spent on passenger cars and household goods; and the rate is now considerably above that. While only a small part of these expenditures could be classed strictly as luxuries, the bulk of them are non-essentials when anything so serious as emergency national defense is being considered.

There is a danger in applying this line of thought too literally to the immediate future. It is, of course, ridiculous to attempt to subtract total prospective arms expenditures from the total of consumers' durable goods payments and thereby arrive at the reduction to be expected in the latter classification. At best the suggested line of pressure for retrenchment points the general way toward the industries with least to gain from a war boom.

The trend will be confirmed if, as now seems possible, some of the high Government officials have their way regarding the direct means of paying for preparedness. Their idea is to levy a heavy tax on incomes down to those of very small size, with part of the payments a true tax and the balance a form of enforced savings. Carrying a nominal rate of interest, the savings would be returned to the individuals making the contributions at some rather indefinite date after the conclusion of the emergency. And here, again, the effect on luxury or even non-essential buying can hardly be questioned over the long run. The enforced savings will represent many a new car postponed.

Should such a plan be adopted, the investor will have an even more direct consideration in the shape of a reduced demand for stocks and bonds on the part of those who might ordinarily put their surplus income in such securities, as well as on the part of savings banks and insurance companies who would find the Government competing against them for the money of the private individual. This effect on reinvestment demand might easily be very important to the stock market.

But it is enough for present purposes to assume the possibility of an all-out war effort and a consequent tendency to reduce the *relative* purchases, at least, of non-essentials to that effort. Immediately, it becomes apparent that certain groups of securities have attractions or the reverse not visible by the ordinary standards of investment in future prosperity.

The accompanying table drawing the distinction between industries according to their position in a war economy is certain to invite arguments. It is quite possible that six months from now some radical revi-

Wide World Photo

Members of the newly appointed National Defense Council as they held their first meeting at the State Department, after conferring with President Roosevelt. Left to Right: Chester C. Davis; Harriet Elliott; William S. Knudsen; Edward R. Stettinius Jr., William H. McReynolds; Ralph Budd and Leon Henderson.

sions might be thought necessary in the light of what we shall have learned of the arms program by then.

The difficulties of applying the breakdown by industries can be easily seen. Steel, for instance, is listed among the first section, the direct war industries. Yet steel may mean Bethlehem with its capacity for heavy products and for shipbuilding or it may mean one of the light steel makers whose output goes into pails and refrigerator cabinets. The industry as a whole actually deserves a place in each of the three sections, including the non-essentials, but the major influences affecting it entitle it to its place in the first section.

The chemical industry is another important one that is hard to place accurately, since it includes branches supplying almost every other industry in the economy. If munitions are to be turned out in quantities, many of the large chemical companies will have a stake in war preparations either directly or indirectly in addition to their important place in heavy industry.

Rail equipments are placed among the direct war industries principally because of their ability to swing much of their capacity over to war purposes. Railroads and public utilities come under the heading of essentials for obvious reasons, and like many others in this group, the classification fails to do complete justification to their importance. Certainly a major failure in any of a number of the so-called civilian essentials would be a serious blow to war preparations.

Perhaps the most thought-provoking classification of all is that of the automobile as a non-essential. This country could not function efficiently without motor vehicles, yet so far as new purchases are concerned they might very well be postponed for a considerable length of time while productive facilities were devoted to more important things. Already it is planned to freeze next year's models to avoid excessive demands on the machine tool industry. This whole process will have varying effects on individual companies. Most of them are in a position to contribute to the war effort very directly in other ways—producing trucks, engines, aircraft parts and equipment, military vehicles, and so on. In case of a strict limitation of profits on Government orders, however, any loss of passenger car volume would be difficult to replace with armament output.

The investor must take into consideration the fact that in most cases a high rating for indispensability to the military effort puts the industry or the company in a prominent place for new forms of taxation. Section I includes the war babies that will be hit hardest if Congress insists upon keeping the profits out of war and preparedness. On the other hand, Section II and even Section III include some enterprises which will have a part in the program of considerable importance, in a secondary way. Radio, tires, and motors are examples from the list arbitrarily classified as non-essentials.

Non-essentials on Defensive

Despite the difficulties in the way of dividing industries into watertight compartments as is here tentatively attempted, certain general investment rules follow the effort. First of all, no security falling among the non-essential industries should be held without a challenge and a rather complete questioning of its position six months or a year from now. The burden of proof is on the individual company to show why it should escape the general indictment of its classification. Particular notice should be paid to the possibilities of special taxation designed to prevent the public from "wasting" its money on certain products or services at a time when all effort should be pointed in a single direction.

The greatest appeal to the truly conservative investor should be found in Section II, and in most cases it will be found wise to concentrate the backbone of any portfolio among these industries or others with similar characteristics. With this as a balance, the investor or speculator can reach out in either direction, toward or away from the war industries, with the advantage of knowing what are his dangers and chances of reward. What is perhaps the greatest advantage of all, the investor who shapes his policy along such lines now will be able to adjust his position without fumbling when the basic condition finally changes—when the shift is made back to a peace economy.

Happening in Washington

Defense Bottlenecks

BY E. K. T.

THE real bottlenecks in the defense program are not the ones the Administration talk about, not machine tools, or airplane engines, or tin, or skilled mechanics. The real chokepoints that threaten to delay rapid rearmament are at the top of the program in Washington in the form of incomplete plans, divided counsel, and a shifting policy.

Plans for mobilizing industry and manpower are rapidly being rough-hewn, and details are beginning to appear. The big lack is policy, a defense pattern to which our economy is to be shaped. What are we going to defend?—both oceans, the British Empire, this hemisphere, North America, the Antilles? After that comes the question what weapons we need most—battleships, aircraft carriers, motor torpedo boats, transports, coast artillery, trans-ocean bombers, dive bombers, cannon-carrying planes, heavy tanks, light tanks, infantry, specialized troops, cavalry, or what?

The military design and procurement experts, the National Defense Advisory Commission (Knudsen, Stettinius, et al.), and industry generally are all set to start production as soon as these policy questions are decided, but they can't go far until then.

Part of the trouble is with political officials, part with career men. The political officials—the President, Congress, Cabinet, State Department—have not said what, where, when and how we are to defend, what sort of forces we need, how much of the program is to be handled through established civil departments of the Government and how much by the military and new agencies. The military career men continue their traditional squabbles and professional jealousies—battleship vs. airplane, cavalry tank vs. infantry tank, mobile forces vs. fixed defenses, and a lot more highly technical matters largely unintelligible to the layman.

There is little use finding fault with this now unless the situation fails to clear up soon. The nation was not ready to support a defense program until recent months. Perhaps foreign policy must remain somewhat vague. Our rush to rearm has come so fast it is natural there are big gaps in the plans. Modern warfare has so many surprises and lessons that military experts must recast their thinking. But these are the bottlenecks and they must be cleared before the program can get under steam.

A few examples: Roosevelt says "50,000 planes." It's easy if we make all one kind, next to impossible if we tailor-make a couple dozen of every kind and then change models, but the experts can't decide whether to go to mass production of any one type and risk obsolescence. Air-cooled plane motors have been favored over liquid-cooled, but they require better workmanship; shall we standardize on liquid-cooled so that auto plants can turn them out in quantity? We want leak-proof gas tanks; if we use the rawhide type we must start scouring the world for skins, but if we use synthetic rubber we must hurry to build some plants. There are similar unsettled questions as to practically every item of ordnance—rifles, tanks, anti-airguns, anti-tank guns, and on down the line. We haven't decided how big our army is to be, what percentages shall go into the different branches (mechanized cavalry, anti-air units, etc.), how to recruit the men, who shall train them, how many and what sort of mechanized divisions.

When decisions of this type are made the rearmament program can start in earnest. Military designers will get out the plans and specifications for orders. Procurement officers and the defense advisory commission will let contracts and do what is necessary to get speedy delivery, such as finding the capital, skilled labor, raw materials, and machinery, and allocating orders and arranging priorities.

Things can move fast then. Congress has voted the money and just about every kind of authority conceivably useful in expediting defense. All regular Government agencies are getting keyed up to help wherever they are called on. Our general staff, war planning and procurement divisions, and the army and navy generally are working at top speed and are in better shape than they have been for years. The defense advisory commission, while saying little, is really getting places in securing business co-operation and anticipating possible choke-points in industrial production. Plans are being perfected to forestall every mistake of our 1917-18 effort. Our entire economy can be geared to armament produc-

tion in a few months and with relatively few kinks as soon as policy decisions are made as to what sort of defense we need.

President Roosevelt himself is an important bottleneck. Congress has dumped all kinds of responsibilities and decisions into his lap and he has taken a lot more on himself. He is chairman of the advisory council and is virtually his own Secretary of War, Secretary of the Navy, and Secretary of State, and in addition is running the civil departments and independent agencies of the Government (and running for re-election to boot?). So many things have to clear through the White House that their mere volume and variety would be staggering even if many of them did not involve vital policy decisions.

Marked progress is being made in bringing order out of confusion. We are just about prepared to begin to prepare, but it will be a long time before tanks, planes and guns roll off production lines in important quantity. The navy's shipbuilding program is proceeding rapidly because it has always been ready to let contracts almost the minute the funds were available. The army is not so ready; Congress has been less generous with it than with the navy in recent years, its procurement problems are different and change more rapidly, and there has been no definite policy as to what and how much it would need. We have equipment only for the present standing army of 200,000, and none too much of that. There is every reason to believe that quantity orders for more and newer equipment will be placed soon and that they will be filled promptly, in spite of the present bottlenecks in Washington.

But the $5,000,000,000 appropriated for the coming year will not give us complete preparedness at the end of that time even if it can be spent in 12 months. It will take two years and three times that sum to do the job right. And if we are to arm on the scale of Germany it will take four or five years and perhaps $20,000,000,000 a year.

CAPITOL BRIEFS

Antitrust policy will not be relaxed as aid to national defense except that Justice Department will wink at collaboration among competitors asked by and policed by defense commission. Attitude is that now if ever is the time to keep down prices and eliminate trade restraints by forcing maximum of competition. Arnold's really amazing total of cases won has whetted his appetite to expand in all directions. Drug distribution is currently on the carpet, food and oil are next in line, building is getting the works fast, and many other big cases are being planned. A number of patent license pools will be attacked.

Wide World Photos
New Navy Secretary Knox, at top, and new War Secretary Stimson, bottom.

Defense alibi is being used by business men to an almost ludicrous extreme. Washington is full of pleas that this or that law or policy should not be enforced because it might weaken the position of the industry for national defense—even industries with no remote connection with defense. They are not getting far with this tack.

Even the boys in the backroom were surprised, not to mention astonished, by the President's appointment of Stimson and Knox to the crucial cabinet posts of Secretary of War and Secretary of Navy, respectively. Interpretations of the Chief's latest assault upon tradition have ranged from an immediate declaration of war to a refusal of a third term, but the most likely thing is that the President is seeking to spread the responsibility of what is to come in this country over both parties and thus prevent the Democrats from carrying all of the load. This is apparently borne out by the fact that National Chairman John D. M. Hamilton has practically read the two latest cabinet appointees out of the Republican party.

Electric power industry will be under increasing government pressure as part of defense program. Holding company integration will not be suspended. Probably no new government generating plants will be built, but as power load increases private companies will be virtually forced to interconnection along lines desired by Administration with result that they will find themselves tied in to the outlines of the huge "grid" which officials have been planning for years. Virtue of defense exigencies is that private companies may have more to say about operation of grid this way than if it were imposed upon them from above as originally planned.

U. S. in war is much less probable now than it appeared for a short time just before collapse of France. It is now realized we are already in as far as we can go to help England now, that we are giving her all supplies we could anyway (some military men say more than we should spare) and that declaration of war would add no material assistance for a year or more. Official plans are now shaping along lines of being ready when war comes to us. But U. S. is obviously non-belligerent rather than neutral and will seek ways to help, such as finding more "obsolete" military equipment which can be exported, giving British orders priority and, eventually, extending wide credit.

The Problem of Canada

Number One Obligation in the Enforcement of the Monroe Doctrine — Customer and Competitor Combined

BY H. M. TREMAINE

THE long-dreaded siege of Britain is about to begin. Its outcome is wholly unpredictable. But whatever that outcome, it seems almost certain to create difficult new problems for the United States in its relations with Canada. Let us consider what now appear to be the possible alternatives.

First, there is the possibility that the Nazi-Fascist offensive against England will fail, that attempts to blockade and starve the island or to invade and conquer it will be unsuccessful, and that the campaign will at length be abandoned. In this event there might follow either a negotiated peace or a long drawn out continuation of the war; in the latter eventuality, Britain, incapable of a counter-offensive on the continent, would presumably attempt to maintain a long range blockade of Europe, and the Axis powers, continuing desultory air and sea operations against England, might turn their main attentions elsewhere—say, toward Africa, the Near East, the Balkans and the Ukraine. In either contingency—negotiated peace or continued war—the seat of the British empire might well be transferred to the senior Dominion of Canada, immediately raising many new intra-American questions. In either contingency, also, we should certainly be directly concerned with Canada's status under the peace or her role in continued war.

Second, there is the possibility that the Nazi-Fascist offensive will succeed and that England will be crushed. Should this prove the case, there is again the prospect of Canada's becoming the seat of the empire. If not, the dominion would surely assume independent status under American auspices.

Gendreau Photo

Canadian Parliament Building in Ottawa

However the problem finally resolves itself, we have a job cut out for us. It is a job not only for the State Department but for the whole country. It is that of becoming a lot better acquainted with our northern neighbor—her geography, economy, people and politics.

Canada, covering 3,847,597 square miles (including Newfoundland and its territory in Labrador which, for our purposes may be considered as parts of the Dominion), is about 3 per cent larger than continental United States and 2 per cent smaller than the continent of Europe. Its topography is extremely varied—mountains in the West, then foothills and prairies, barrens above Lake Superior, open lands of Ontario, the rocky Laurentian district in Quebec and fertile eastern townships south of it, then

plains sloping to the sea in the East. Lakes abound throughout and some of them are larger than the Great Lakes on the U. S. border. Both coastlines offer excellent harbor facilities; on the Pacific, Columbia is deeply fringed with islands and fjords, while on the Atlantic there are long stretches of sheltered navigation from the Straits of Belle Isle north of Newfoundland to Quebec. Climate of the Dominion's populated areas corresponds to that of our northern states.

Like this country, most of the developed land area of Canada is devoted to agriculture and forestry, but its economy is largely industrial. As to agriculture, its chief crops are grains, principally wheat, though dairy and fruit products are also plentiful. In other fields of primary production, fishing, trapping, hydro-electric power and mining are important, the latter constituting one of the country's major industrial activities and accounting for about 10 per cent of the national income; the Dominion is the world's largest producer of nickel, platinum and asbestos, it ranks third in the output of copper, silver and zinc, and fourth in lead and gold. Manufactures account for about a third of the national income (which was $4,402,000,000 in 1938 as contrasted with $66,270,000,000 for the United States), and of these the most important are paper and paper products, automobiles, iron and steel, textiles and refined petroleum products.

Canada is much more dependent on foreign trade than we are, around 30 per cent of its national output being exported against about 9 per cent of ours. Major items of export are wheat and flour, metals, lumber, wood pulp and newsprint, fish and meats, whisky and furs. Most important of all, however, are tourist expenditures, which bring in more funds annually than the whole wheat crop. From 70 to 80 per cent of Canadian foreign trade is conducted with the United Kingdom and the United States, being almost evenly divided between the two.

Despite Canada's vast area, its population is small—only some 10,370,000 at the 1931 count—and this is settled almost entirely in a belt nowhere more than 200 miles wide along the U. S. border. Population growth has been much more rapid in recent years than in the United States, having more than doubled since the turn of the century as against a gain of about 68 per cent in this country. More than four-fifths of the people are of British or French origin, the former outnumbering the latter about two to one.

As to politics, Canada is one of the British Empire's five self-governing dominations. Though still retaining some vestiges of its colonial status, such as appointment of the Governor-General by the British government and privileges of appeal to the Privy Council, the Dominion is considered of equal status with the mother country. Like the United States, it is a federation with provincial governments similar to the state governments here and with Ottawa corresponding to Washington. In the Parliament, however, members of the Senate are appointed for life by the Governor-General; Representatives are elected directly by the people for a term of five years. There are two major political parties—Conservative and Liberal—and a number of inconsequential smaller ones.

A country can scarcely be adequately described in five paragraphs, but it is apparent from even as hasty a sketch as the foregoing that Canada, in almost every respect other than its ties of allegiance to Britain, is more like a part of the United States than a neighboring sovereign power. Certainly this is the case in economic and cultural matters, and the best evidence of the virtual oneness of the two nations is the world's longest unfortified frontier that unites rather than divides them. Considerations of this sort have been of paramount importance in Canadian-American relations and it is to be hoped that such will continue to be the case. Almost certainly it will if the empire's citadel, England, withstands the German onslaught or, England having fallen and her fleet having passed to the Nazis, Canada assumes independent status. (*Please turn to page* 379)

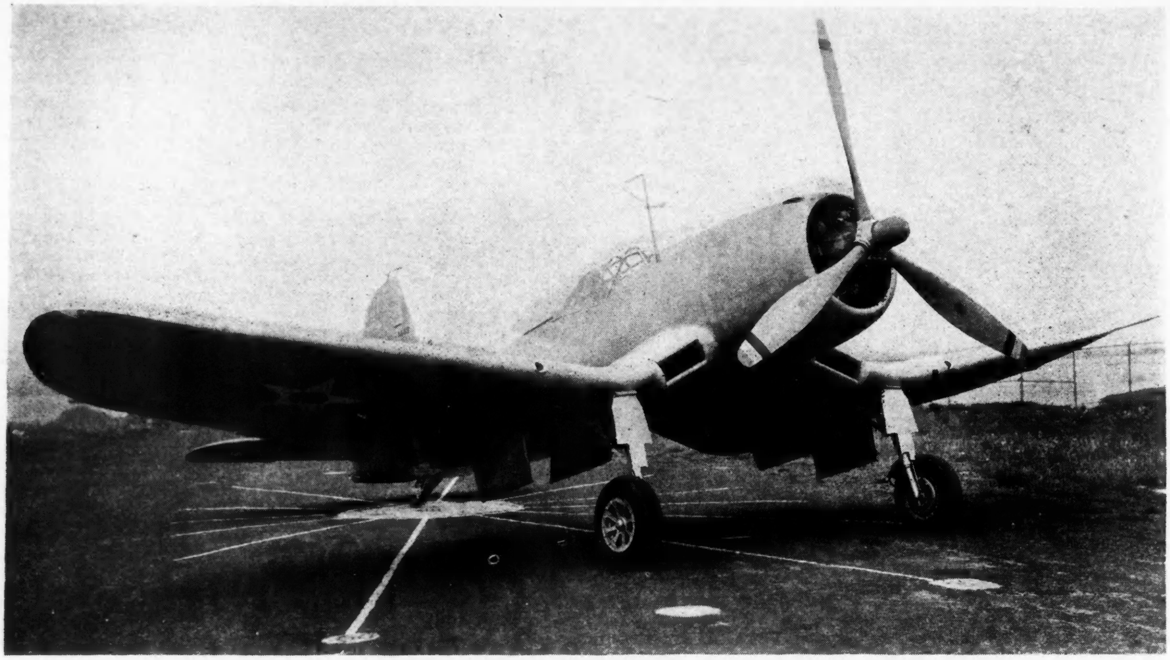
The Monroe Doctrine

"In the wars of the European powers in matters relating to themselves we have never taken any part, nor does it comport with our policy so to do. It is only when our rights are invaded or seriously menaced that we resent injuries or make preparation for our defense. With the movements in this hemisphere we are, of necessity, more immediately connected, and by causes which must be obvious to all enlightened and impartial observers. The political system of the allied powers is essentially different . . . from that of America. . . . We owe it, therefore, to candor, and to the amicable relations existing between the United States and those powers, to declare that we should consider any attempt on their part to extend their system to any portion of this hemisphere as dangerous to our peace and safety. With the existing colonies or dependencies of any European power we have not interfered and shall not interfere. But with the governments who have declared their independence and maintained it, and whose independence we have, on great consideration and on just principles, acknowledged, we could not view any interposition for the purpose of oppressing them, or controlling in any other manner their destiny, by any European power, in any other light than as the manifestation of an unfriendly disposition toward the United States. . . . It is impossible that the allied powers should extend their political system to any portion of either continent without endangering our peace and happiness. . . ."

Thus spoke President Monroe to Congress on December 2, 1823. The "allied powers" to which he referred were those of the Holy Alliance, and the "governments who have declared their independence" those of the former Spanish possessions of Colombia, Mexico and Chile, which the Alliance, seeking to enforce the divine right of kings against the principle of representative government and having restored the rule of Ferdinand VII in Spain, was then proposing to overthrow.

The doctrine set forth by Monroe—it also included, in another paragraph of his message, the dictum that the American continents were "henceforth not to be considered as subjects for future colonization by any European powers"—has since been extended and amplified. Thus, what was first said with Europe exclusively in view is now deemed applicable to any non-American power. Again, in the case of Yucatan, when that state offered its dominion and sovereignty simultaneously to Britain, Spain and the United States, President Polk made it clear that such could not pass to a foreign power even by peaceful means and at the wish of the state in question. Finally, it was established as early as 1825, when Secretary of State Clay warned a French fleet standing off the coast of Spanish Cuba, that this country cannot countenance the transfer of any American territory from one foreign power to another.

These are the principles of the Monroe Doctrine. Though subject to further extension and modification insofar as that may seem desirable in the light of new developments, they are in essence as appropriate to the situation of today as they were to any that gave rise to them.



Latest type Vought-Sikorsky fighter which is being tested for the U. S. Navy.

Record Year for United Aircraft and More to Come

Orders Backlog, Output and Profits All in Strong Upward Trend

BY ROGER CARLESON

HAD you happened by the grounds of United Aircraft's Vought-Sikorsky plant at Stratford, Connecticut, one day early last month you would probably have been stopped in your tracks at the half-awesome, half-comic sight of a serious little man perched nervously at the controls of a curious framework contraption hovering some ten feet off the ground under the whirring blades of a large horizontal rotor. The man at the controls, Russian-born plane designer Igor Sikorsky, and the contraption he was testing, an experimental helicopter (differing from the commoner autogiro in that its rotor is motor-driven), were actually no more awesome or comic than any inventor and his invention are apt to appear to the uninitiated. As a matter of fact, they merely represented a bit of pioneering in a much neglected field of American aviation—that of stationary flight craft—and the U. S. Army, weighing the ultimate possibilities of the helicopter for military observation work, was definitely interested.

Indeed, the Army is understandably interested these days in just about anything that flies. Rudely awakened by the recent course of European events to the tremendous importance of air power from a national defense standpoint, this country and its fighting services have become air-conscious in earnest. The President sounded the keynote and fixed the goal when, in his May 16 special defense message to Congress, he said: "Our immediate problem is to superimpose on this production capacity [12,000 planes annually] a greatly increasing additional capacity. I should like to see this nation geared up to the ability to turn out at least 50,000 planes a year."

Opinion as to how rapidly such capacity can be obtained varies widely. The Aeronautical Chamber of Commerce, trade association of the aircraft industry and information clearing house of most of its larger manufacturing units, states flatly that a 50,000-plane production rate cannot be achieved in less than three or four years; output for 1941, it holds, will not exceed 15,000 to 20,000 units even assuming unlimited plant expansion with Government financial aid, the placing of large scale orders and the institution of other aids to a rapid increase in output.

However, the Chamber probably reckoned without Henry Ford who has stepped into the breach to assure

the nation that, given a hands-off policy on the part of the Administration and complete standardization of plane design, he can reach the almost incredible production rate of 1,000 pursuit planes daily in six months' time. General Motors is also understood to have volunteered its services in aircraft production, and even such a relatively small concern as Briggs Mfg. reports that it can turn out 30 planes per eight-hour day if called upon to do so.

What all the excitement boils down to is that, whether or not the automobile and allied industries participate, times are going to be busier than ever for the aircraft industry in general and for United Aircraft in particular. For United, bigger than any of the others, is also better diversified in types of products.

Nucleus of the United organization and accounting for two-thirds to three-quarters of the company's total sales volume is the Pratt & Whitney division, builder of the well-known "Wasp" and "Hornet" aircraft engines and direct offspring of the Pratt & Whitney concern of machine tool fame, operating subsidiary of Niles-Bement-Pond; United's P & W was organized as a sideline venture by Niles' P & W in the middle 'twenties and sold to United in 1929. Other United operating divisions are Vought-Sikorsky, which turns out long-range amphibions and flying boats as well as military fighting craft, and Hamilton Standard Propellers, the country's principal manufacturer of fixed and controllable pitch propellers.

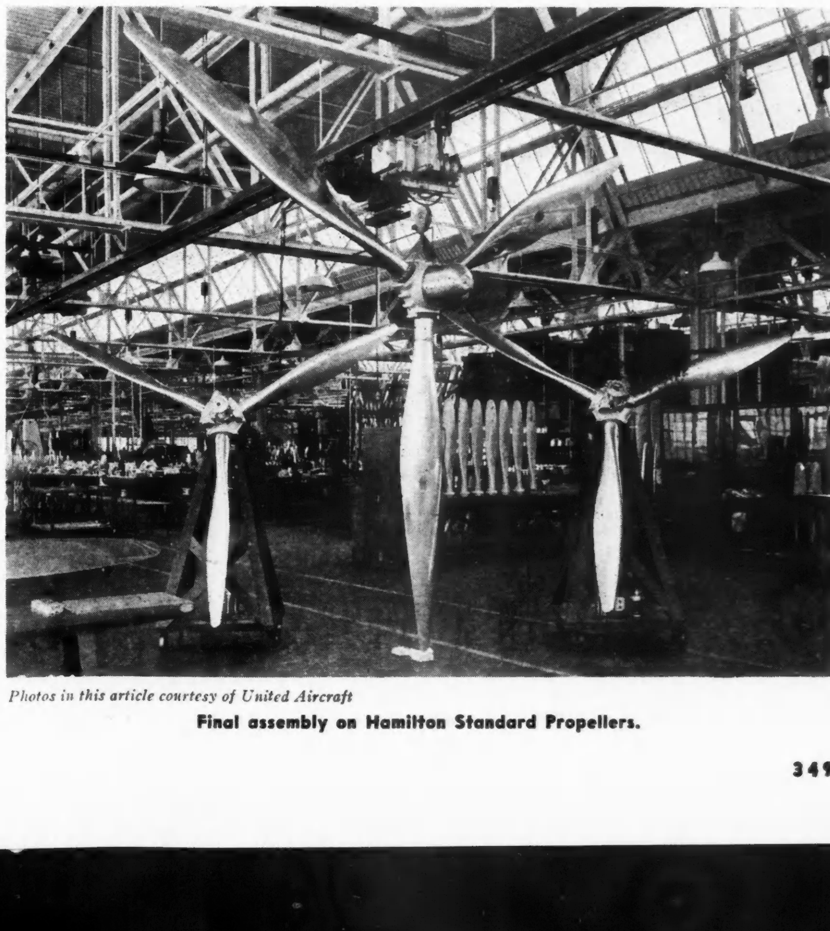
It is the engine division, of course, that has been busiest of all of late and that seems likely to continue so. "Bottleneck" is a word that has been used overmuch in the past few weeks but it is also one that most aptly describes the situation with respect to aircraft engines. What it means is simply that the chief existing obstacle to rapidly increased plane output is the limited productive capacity for power plants. Hence, United's recently commenced $8,000,000 addition to the Pratt & Whitney East Hartford plant, an addition that will raise its present capacity from 850,000 horsepower monthly to 1,200,000 and which, incidentally, is being totally financed by the Allied governments.

Of course, "Wasp" and "Hornet" engines—they come in five types ranging from 400 to 1,800 horsepower—are exclusively of the radial air-cooled sort and are not going into the very latest design of fighter planes. These are equipped rather with in-line liquid-cooled motors whose narrower frontal areas permit better streamlining and, thus, higher plane speeds. Development of in-line engines for military aircraft purposes was suspended in favor of radial engines in this country in the early 'twenties and today the only concern equipped to turn them out in even moderate quantity is the Allison Engineering Division of General Motors. Most recent development in the engine field is the "pancake" model introduced in the past few weeks by the Lycoming Division of Aviation Mfg.; of flat construction, this unit can be installed in the wings without the use of nacelles and seems likely to prove the most satisfactory answer yet hit upon in the problem of streamlining multi-motored planes.

All Types of Engine in Demand

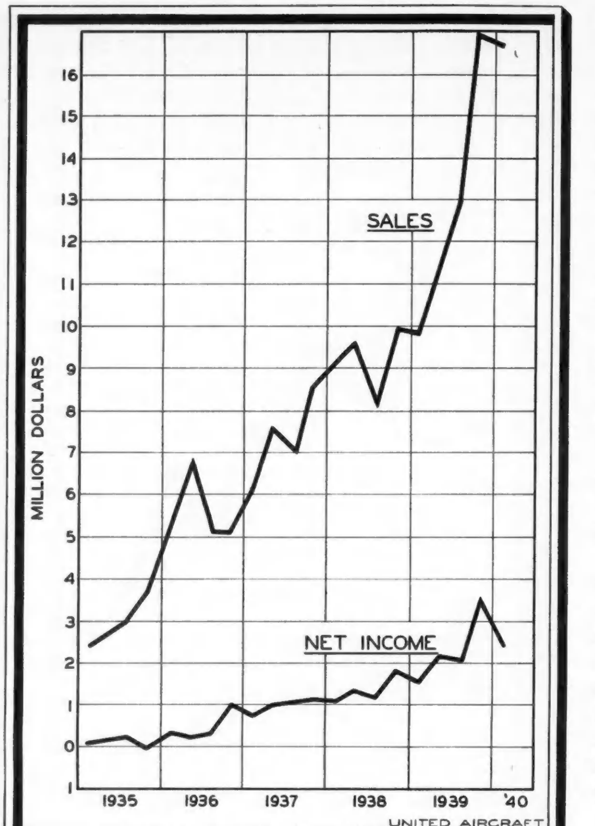
This is not to say, of course, that Pratt & Whitney is being left behind in the matter of up-to-date engine design or that its business is going to vanish or even be seriously curtailed — quite the contrary, for military needs are now such both in this country and abroad that no power plants of adequate horsepower are going to go begging and, as regards the longer range outlook, there will continue to be considerable demand for radial motors in commercial and private aviation. It does seem highly probable, however, that in the military field the radial design is on its way out. If that is the case, some concentrated engineering research looking toward the development of an in-line motor is obviously called for on the part of United.

Happily, the company's management is not the sort that is likely to be left standing flatfooted in a matter of this sort. In top personnel, the company apparently leans towards men of military experience. Eugene Wilson, newly elected president succeeding the late Donald L. Brown, played an important part in the development of radial engines as chief of the Navy's Bureau of Aeronautics in the middle 'twenties, resigning in 1930 to join United's Hamilton Standard Division. Raycroft Walsh,



Photos in this article courtesy of United Aircraft

Final assembly on Hamilton Standard Propellers.



moving up to fill Mr. Wilson's place as senior vice-president, saw Air Corps service prior to his connection with the company. Other principal officers, including board chairman Rentschler and chief engineer Mead, were largely responsible, together with Mr. Brown, for the formation of the original Pratt & Whitney organization, leaving Wright Aeronautical to join Niles-Bement-Pond in the management of the new venture at its inception. Their experience in aircraft production has been largely in the power end of the business and if some pretty basic changes are due here they are not likely to be caught napping.

The name "Hamilton Standard" has long been synonymous for quality in aircraft propellers. This division turns out forged light alloy "props" of the detachable blade variety. Both fixed and controllable pitch propellers are manufactured and a unit has been developed that automatically controls engine speeds. The company's propeller testing facilities are the largest and most complete in the world, additions to these having recently been completed with the construction of a building housing four new wind chambers at the Hamilton plant in East Hartford. A full-feathering propeller has also been perfected; its blades automatically flatten out completely in the event of engine failure, relieving the ship's remaining engines of the strain of turning over the dead power plant. The U. S. Army and Navy are both important customers of this division, as are other plane manufacturers, foreign governments and commercial airlines.

In United's annual report for 1938 it was stated that "For some time the Sikorsky Aircraft and Chance Vought Aircraft Divisions have been jointly administered and consideration has been given to physical consolidation of their activities when circumstances should warrant." This was carried out in 1939, Chance Vought being moved to Stratford and manufacturing facilities there being increased to meet the needs of the consolidated airplane division, now known as Vought-Sikorsky. Sikorsky flying boats and amphibions, of course, are known the world over and are standard equipment on many important routes of Pan American Airways. Also, a new flying boat has recently been designed and built for American Export Airlines which the latter had planned to operate over a transatlantic route from New York or Baltimore to Rome, Italy; with the entrance of Italy into the war, the new boat may not see service for some time, however, unless operations are undertaken as far as Lisbon only. The U. S. Army and Navy, as well as a number of foreign governments, are likewise important users of Sikorsky equipment, particularly amphibions.

Vought observation, scouting and bombing planes find extensive use in this country's fighting services, single seat and two-place biplanes for operation with aircraft carriers, battleships and cruisers being the commonest types though the company has also developed some monoplane low-wing ships. Needless to say, considerable numbers of these units are also shipped abroad. And, in addition to its business in planes, the Vought-Sikorsky Division does an extensive business in spare parts and servicing.

Operations Concentrated in Northeast

United's principal operations are conducted at its plants at East Hartford and Stratford, Connecticut, but the company also has a Canadian subsidiary; activities of the latter, conducted in a leased plant near Montreal, include assembly of engines from parts and semi-finished materials shipped from East Hartford, and the handling of Pratt & Whitney and Hamilton Standard sales and servicing activities in Canada. A minor portion of United's revenues is also derived from the operation of an airport adjacent to its East Hartford plant and from overhaul and repair services in conjunction therewith.

In common with all other major units in the aircraft industry, United's present volume of unfilled orders is of phenomenal proportions as compared with anything witnessed in the past. Present backlog is in the neighborhood of $180,000,000, three and one-half times total 1939 sales volume and equal to more than $67.50 per share. Despite a sharply upward trend of deliveries, the growth in backlog has been rapid, rising from $48,000,000 since last October and $17,500,000 since December a year ago.

Per share operating results for the first quarter of 1940 amounted to 89 cents against 56 cents reported for the like quarter of 1939. It is probable, moreover, that second quarter earnings will be sufficient to lift the total for the half year to better than $2. Full year results are thus reasonably certain to be comfortably in excess of the $3.53 per share reported for the whole of 1939; the latter represented a new high record, topping by a considerable margin the $2.05 (*Please turn to page* 380)

Revolution in Rubber?

Probably, But No Near Term Famine in the Natural Product Is Indicated

BY JESSE J. HIPPLE

Coming as it did at the time when Holland had been invaded and status of the great East Indian rubber plantations was in doubt, B. F. Goodrich Co.'s announcement that a tire composed completely of Ameripol—a synthetic rubber—had been made, attracted considerable attention from the daily press whose writers were prone to wax patriotic as well as romantic on the subject.

Not that any attempt is being made to minimize the accomplishment of the rubber company for it is indeed a long step in the right direction. But, because of the relatively small production capacity of the synthetic rubber industry in this country, the necessarily high cost of the numerous products and the still ample available supplies of natural rubber, the best prospects for the new products would seem to lie considerably in the future.

It is comforting, however, to the United States rubber consumer to know that at some future date all of this most necessary commodity may be obtained within our own borders, and made from raw materials of which we have the largest supply of any nation in the world. To achieve this highly desirable condition will take considerable time and money although the amount of money needed is surprisingly low if current estimates of plant and equipment costs are reliable.

Last year, the United States consumed about 577,000 long tons (2,240 pounds) of new rubber or about 60 per cent of world shipments. In addition the industry consumed about 199,000 long tons of reclaimed rubber—used mostly for mechanical goods, etc.—and an estimated 1,679 tons of all kinds of synthetic materials used as substitutes for natural rubber. The use of natural rubber scored a 30 per cent increase over a year before and reached new high record levels as did the consumption of synthetic rubber, although in the case of the latter material the increase in consumption over that of 1938 was approximately 100 per cent. Nevertheless, the quantity of synthetic rubber consumed was but .03 per cent of the total consumption of natural rubber and would not have attained that volume were it not for the fact that some synthetics possess certain qualities wherein they are superior to natural rubber and their use, even at three times the cost of the natural product, is therefore justified and will continue to increase.

The near term prospects of securing adequate supplies of natural rubber continue to be good although there will probably be some difficulty in the matter of costs of

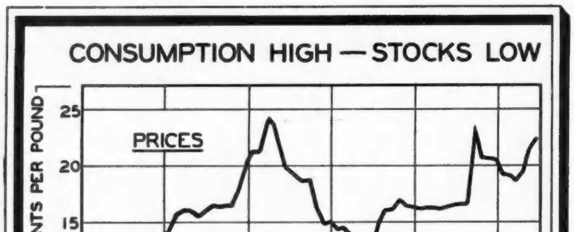
Courtesy B. F. Goodrich Co.

Washing Ameripol. The outstanding feature of this new synthetic is that it can be processed on standard rubber manufacturing machinery.

shipping and payment. The one factor that has held up large shipments from the Dutch East Indies in recent weeks has been the matter of settlement of contracts that called for payments in guilders, a currency that no longer officially exists. This matter has been corrected by substitution of new contracts calling for payment in other currencies and no further trouble along this line is indicated for the present.

Ships have also been a question in the anticipation of rubber supplies for up until recently only about 20 per cent of the rubber imported into this country was carried in American bottoms. Of the total imports of rubber Great Britain has brought in about 40 per cent, Holland 25 per cent and the balance by Japan and other maritime nations. With Holland in German hands and Danish and Norwegian bottoms eliminated, the solution of the problem lies in increasing the amount carried by American ships. This is already being done for in the first quarter of 1940, American-borne rubber imports had increased to 24 per cent of the total amount and the quantity is growing.

Should war come to the Pacific ocean then the problem might be somewhat more difficult although it is in that ocean that the United States has its greatest naval power and our shipping should be able to obtain full protection. Authorities in the rubber trade believe that there would be less probability of decreased supplies of rubber in the event of our entry into the war than there is under the non-belligerent position which we now maintain. In the longer run it is hard to conceive that, no matter who owns the East Indian rubber plantations, they would be unwilling to sell us a good part of their potential output which this country alone is able to consume in such extensive quantities. There might be some moral inclination not to purchase the material from owners we did not approve or like but on a realistic basis it is probable that ample supplies will always be for sale although, at times, the price may be somewhat exorbitant. The development of a goodly capacity for the production of acceptable synthetic products will go a long way toward counteracting the latter possibility.



While the East Indies supply us with approximately 90 per cent of the crude rubber used in this country, other sections of the world are also able to supply a part of our requirements. Brazil, the original home of the rubber tree that produces the most commonly used latex, once had a world monopoly of this material. Production methods and the lack of any attempt to domesticate the rubber tree eventually brought about the downfall of the industry in Brazil from which it is just beginning to recover.

Brazil Output Mounting

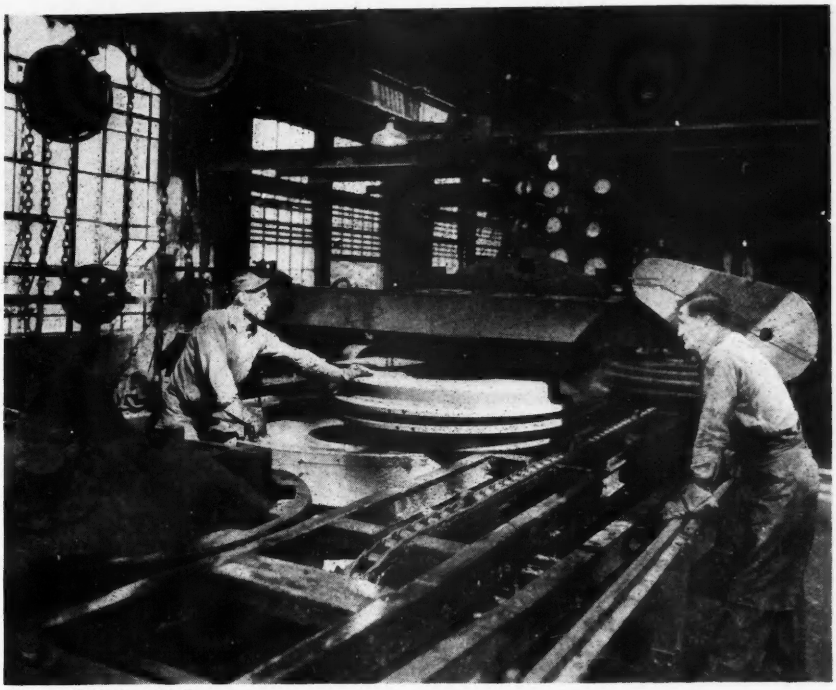
Vulcanized rubber—latex and several other materials combined into workable form through subjecting the mass to the action of heat—has been in use for over a hundred years. The original latex from Brazil was collected in the jungles by Indians who did so only when the need of money prompted the labor. The manner of collecting the sap was wasteful and the product crude. It was but natural that when seeds and cuttings of the Brazilian rubber tree were transplanted to the favorable climate of the East Indies and there scientifically tended and milked, the crude product of Brazil should become less and less in demand. It was not until about 1932, however, that Brazilian production reached a bottom of approximately 8,000 tons for the year. Since that time, East Indian methods of cultivation have been inaugurated with the result that the yield is continuing to gain. Last year Brazil produced about 20,000 tons of rubber although the potential output of the country is said to be in the vicinity of 600,000 tons yearly. If this output can be developed it would take care of all of our needs. However, such large figures are not likely to be achieved within the nearer term since they involve the coverage of vast distances even as we know them and also heavy collection and transportation costs. Nevertheless, the possibilities are there, a fact well recognized by the Ford Motor Co., which has extensive plantations, modeled along the latest lines, under development in this territory.

In addition to the Brazilian prospects there are Mexico, Costa Rica and even limited possibilities in Florida. Mexico now has an output of about 8,000 tons of a sort of rubber made from the guayule shrub which is also found in some abundance in Texas. Plantations are already in operation in Panama and the Philippines, both under the ownership and supervision of Goodyear.

In addition to the production areas mentioned there are the Firestone plantations in Liberia, Africa, and the U. S. Rubber plantations in Sumatra and Malaya which all contribute to the crude rubber supply of the United States. It is admitted that at this moment no other

place in the world other than the East Indies is capable of supplying our full needs but sources much nearer to home are being developed and may become fully effective within a fairly short period of years.

Since the press of the country has been lauding the possibilities of synthetic rubber some discussion of the possibilities and drawbacks is warranted. In the first place, there are a great number of synthetic rubbers—not one or two—and each of these has separate characteristics which fits it fully for one service or another often in a manner superior to natural rubber. Being produced in small quantities, synthetic rubbers are relatively high priced—too much so to be used indiscriminately for the making of all rubber articles—but in many cases the superior qualities of the synthetic product makes it more desirable to use than natural rubber. This is most true in the mechanical rubber field and in industry for the lining of tanks, pipes and other articles subject to high corrosion from petroleum, acids or electricity. The synthetic material is also strongly resistant to abrasion, thus making it desirable for the making of conveyor belts and other similar products. The same resistance to abrasion is one of the most favorable factors which may eventually make the tire industry turn to synthetic rubber for the treads, at least, since it will not only permit longer tire life but will also serve to reduce the tire weight. A tread of the proper synthetic rubber will outlast a natural rubber tread which is twice as thick.



Courtesy B. F. Goodrich Co.

A tractor tire coming out of the vulcanizer.

The raw materials which are adaptable to making synthetic rubbers are many. They can be made from coal and limestone—as in Germany—they can be made from butyl alcohol or they can be made from petroleum gases. The latter is probably the most prolific source and it is from butadine—a derivative of butane, a product of petroleum refining—that both Standard Oil of N. J. and Goodrich are now making some of their products, called by Goodrich, Ameripol, and by Jersey Buna, Vistane or butyl rubber, according to what process is used in its formation.

The synthetic rubber output of the country is small at the present time and when both the Standard of N. J. and Goodrich plants are finished the output will not be much more than 10 tons daily for both of the new plants. There are, however, several other plants such as those of Dow Chemical and du Pont whose aggregate capacity brings the potential total output up to around 8,000 to 10,000 tons yearly. This is a very small amount in the face of our annual consumption of 600,000 tons of rubber but it represents much costly groundwork that should help in achieving U. S. self sufficiency in the matter of rubber in days to come.

The new plants of Goodrich and S.O.N.J. are small and while they are designated as commercial producers they are hardly more than "pilot" plants which establish methods and costs. To supply completely the basic needs of this country it is estimated that six plants, each having a capacity of not less than 100,000 tons yearly will be required. It is said that the cost of one such plant would be in the vicinity of $35,000,000 and to build six plants a total investment of $200,000,000 or more would be needed. While $200,000,000 is not an impossible sum in this day of astronomical figures, it would nevertheless be an excessively heavy outlay for the industry if it were to be spent all at one time. To achieve such a volume quickly, Federal subsidies would be needed and, lacking such assistance, the desired capacity must be achieved through long term growth.

One of the major deterrents to the wholesale acceptance of synthetic rubbers by the tire industry at this time is the excessive price differential. Synthetic rubber, according to its type, sells as much as three or more times higher than the natural product. In the case of a tire where nearly half of the cost is raw rubber, it would make it necessary to double the selling price of the article to compensate for the inclusion of the new material. Unless the price of synthetic rubber declines sharply as the material gets into production or that natural rubber is no longer available from any source or if it is, at prohibitively high prices, there is small near term possibility of the synthetic product replacing natural rubber in the manufacture of tires, which now consumes about 60 per cent of all the natural rubber imported. However, it is likely that the new product will gradually replace the older item in the making of mechanical goods and similar materials over the longer term, thus furnishing the new (*Please turn to page 382*)

As The Trader Sees Today's Market

Market Psychology In Action

BY FREDERICK K. DODGE

THE connection between stock prices and sentiment is usually difficult to measure, even when things are going along smoothly and it is business sentiment that controls the mood of the day. But any attempt to anticipate or merely to understand the course of the market must be based in large part on psychological factors. For which the events of the last nine months offer full proof—as well as some clue to the war's future influence on the stock market.

When Germany moved into Poland and the Allies declared war it is probable that eight or nine out of ten average Americans had up until then assumed that England and France together would be more than a match for the Nazis. War scares had hurt the market more because of the threat to normal trade than because of any general suspicion that the whole world including the United States might be thrown on the defensive by German successes.

The outbreak of war, however, immediately sobered the optimism of many people. Polls taken then indicated that three out of four Americans still expected an Allied victory, with less than half of the rest convinced that Germany would win. The attitude of the large majority permitted the memorable rally of early September. The almost immediate downtrend in the line showing confidence in the Allies undoubtedly had a great deal to do with stopping the upsurge in stock prices.

Notice that the only determined attempt on the market's part to break through the highs established right after the outbreak of war came in late October and coincided with the only upturn in the complete length of the war confidence line. The relationship may, of course, work both ways to a limited extent. Some people sufficiently familiar with the stock market might conclude from seeing strength there that it was predicting a favorable outcome of the war. The conclusion would be well reasoned, but it is doubtful if many of the persons polled could have been swayed by such considerations.

At any rate, while business conditions continued to improve spectacularly, the market retreated from early November onward. Its January rally was feeble, that in April not a great deal more impressive. Measurements of public opinion on the war's outcome were by no means continuous, but by connecting the known points with straight lines a rough idea of the trend can be obtained. It was consistently unfavorable, and must have had much to do with discouraging the public in any acquisition of stocks.

The German invasion of Norway was one key point. As soon as its success became assured, the chances of the April market rally were doomed. Then it appeared that stocks might dig in somewhere near the middle of their former trading range, but Germany again moved, this time into the Low Countries, and the market and hope for the Allies dropped together.

One interesting point shown by the Gallup and Princeton surveys of public opinion is that the likelihood of this country entering the war has not been directly connected with estimates of the Allies' chances of winning. At the outbreak of hostilities a surprisingly large proportion—just over half—thought we would be drawn in. Yet the market rallied. By the middle of October only one out of three thought the United States would become involved, and that attitude was kept until the end of January. Since then more and more have swung around to belief in our eventual entanglement, until the latest polls show again just over half of public opinion so inclined.

Now the trader or investor who tries to anticipate these swings in public opinion is obviously going to have a hard time of it. Sudden developments on the other side can throw out any calculations. Nevertheless, the trend is visible, if one watches carefully enough for it. And public opinion makes stock prices far more directly now than in former times.

Many on the Street think that at its recent lows the market had discounted seventy or eighty per cent of the worst that could happen in the way of war developments.

(The worst being, presumably, a complete German victory over both England and France.) The thought is rather nebulous, but these measurements of popular sentiment tend to bear it out. What is more to the point, the action of the market itself while the Germans were taking Paris and forcing France to ask for an armistice was a demonstration of strength accumulated through a relatively complete facing of the facts. The public had prepared for it and had sold all the stocks it was going to on that particular sequence of events.

Whether one should play with or against the psychology of the moment is another question. Usually in recent times it has paid to go along with either optimism or pessimism in their early stages, then to look for the opportunity to copper the popular mood after it has persisted for a while. Market swings have been relatively short, of course, for the last two and a half years. It would have worked out well to buy any time prices had persisted in a downward trend for several months and to sell blindly after the recovery had reached a respectable size. But an understanding of what other people are thinking is always useful, whether agreeing or disagreeing with them.

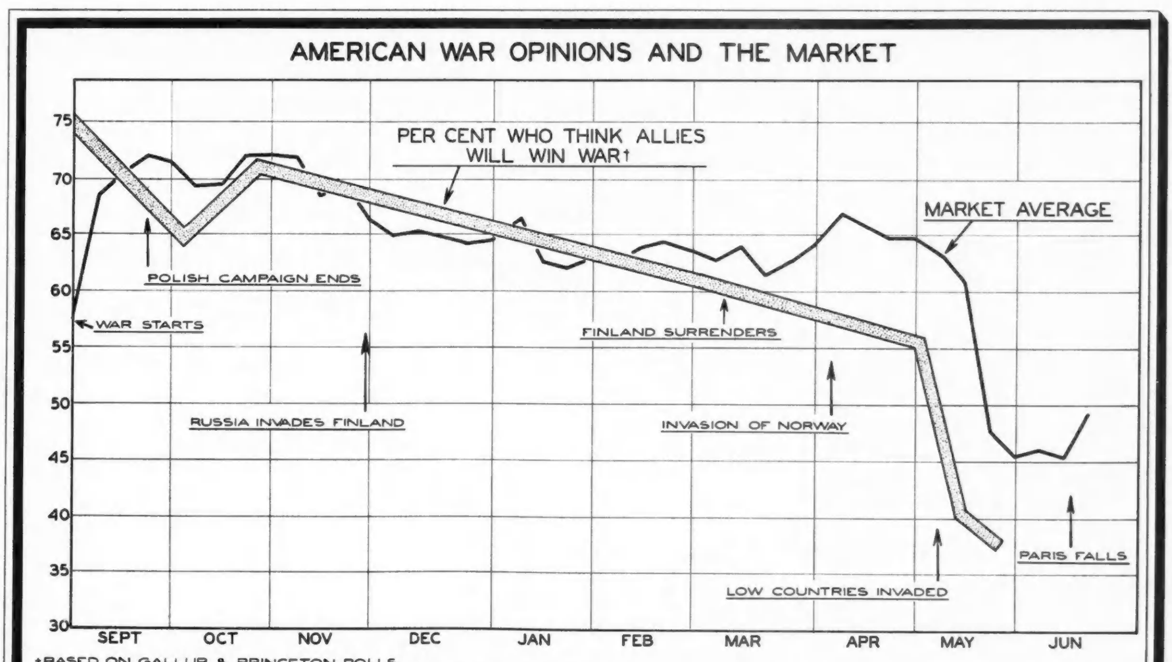
Thinking Controls Prices

Psychology is the stumbling block of many an intelligent trader. We all realize that men's minds are queer and do queer things, but nevertheless we are taken by surprise when the market behaves irrationally. Yet stock prices are not the result of things as they are, but of things as men think them to be. The more sensible and logical a trader is, the more likely is it that he will allow insufficiently for the mistakes of fear and over-enthusiasm. Dealing with another individual, he will seldom fail to size up his weak and strong spots, his quirks in thinking. Put a few thousand individuals together and the art of understanding the sum of their thoughts is admittedly far more difficult, but it is absolute necessary in dealing with the mass mind, as traders must.

Although during recent weeks and for the past nine months the thought of the war's outcome has been far in the front of all others, the background has contained two more normal subjects on which sentiment sways back and forth—politics and business. Since both have been closely related to the course of the war, it has been impossible to arrive at any separate measurements. In fact, so far as business is concerned, optimism there has been influenced more by the probable length of the war than by its decision. And one of the outstanding peculiarities of the past half-year has been the refusal of stock prices to mesh into any sort of gear with business.

Proof that war psychology has been stronger than business sentiment is available by comparing the course of the market with that of business activity all during the final quarter of 1939 and the first quarter of the current year. When business was booming at an unprecedented rate, the market was held back by growing uneasiness as to the developments to be expected on the other side of the Atlantic. When it declined at a rate equally sharp in the first few months of 1940, the market refused to follow pending further revelations on the war's outcome. Then when business turned for the better in the second quarter, the market soon after broke decisively on a change in war psychology.

Since the normal mind eventually becomes surfeited with news of a certain type, the chances are excellent that the market is waiting for a chance to turn away from the war and back to business or politics. Analysis of market psychology will then be on a base entirely different from that charted here. However, these trends in sentiment are always to be watched for, particularly since their direction can be seen at times long before they suddenly take effect in terms of stock prices.



Will A Tin Shortage Blackout Can Companies?

American and Continental Check Over Their Worries

BY HENRY D. STEINMETZ

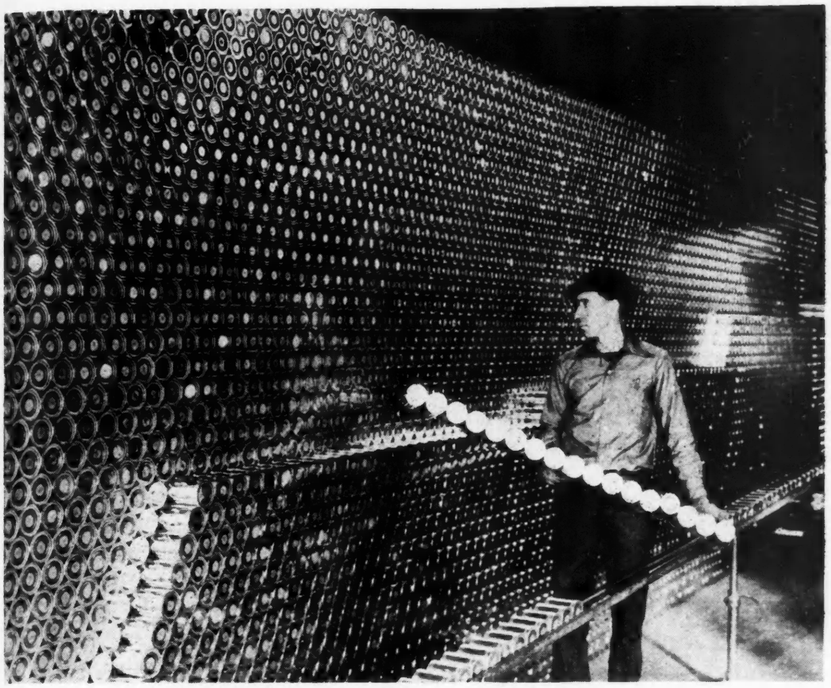
If there is any redeeming feature of war it is that the inventions born of its necessities frequently survive to become the greatest of peacetime boons. Consider the case of the humble tin can, invented a little more than a century and a quarter ago in solution to the problem of supplying food to the far ranging armies of Napoleon. Ironically enough, with a new conqueror now bestriding Europe and the repercussions of his conquests extending throughout the world, the constructive uses for tin that it took a war to discover are now threatened by war—at least, as far as America is concerned.

One of the most international of commodities, the fortunes of tin are closely bound up with world politics, diplomacy and sea power. This because, though it is an important item of consumption in many countries, its principal sources of production are few and are removed from major points of consumption by broad expanses of salt water. Most of the world's tin—some 56 per cent—comes from British Malaya and the Netherlands East Indies. Bolivia produces another 10 per cent and the remainder comes from China, Nigeria, Siam, the Belgian Congo, Australia and other scattered sources. Biggest consumer is the United States, taking about a third of the world's output. Next are the United Kingdom, Russia and Germany which, together, take another third. Consumption of the remainder is divided among France, Japan, Italy and others.

The threat to this country's tin supplies, which come almost entirely from the Far East, is as yet more potential than real. That it can become real virtually overnight, however, is scarcely to be doubted in the present international setting. Much has been published of late of the dangers to us that would arise from German seizure of the British and French navies. Whatever other of our interests such an eventuality might menace, it would certainly place the matter of our tin supplies in the laps of the gods—or, more correctly, the Japanese. For with the expanding Nazi-Fascist powers dominant in Europe, commanding the gateways to the Atlantic and possessed of formidable sea strength, our own one-ocean navy could scarcely be left on guard in the Pacific.

Of course, all this involves quite a string of "ifs"—*if* the Germans defeat England, *if* they get the British and French fleets, *if* Japan then capitalizes on our helplessness in the Pacific. Further, even should all this come to pass, the new proprietors of the area in question would still have to sell their wares to someone. True, they might attempt to hold us up on price—a dangerous game, however, for so large an importer of American goods as Japan—or Germany and Italy might be favored to our detriment. There is the possibility, too, that in the event of local resistance to capture, the mining and smelting facilities might be damaged or destroyed.

In a good year this country consumes 80,000 to 85,000 long tons of tin. Somewhat less than half of it goes into solder, bronze, babbitt metals, pewter, foil and other products. The remainder is used in the manufacture of tinplate which, in turn, goes almost entirely into the production of cans. The largest domestic can makers—



Stacking cans at American Can Company.

American and Continental, together accounting for nearly three-quarters of total output—probably take in the neighborhood of 30,000 tons of tin annually in the form of tinplate.

At American's annual stockholders' meeting in April, a question was raised as to the possible development of a metal container not requiring tin coating. The management stated that the company was capable of turning out cans of blackplate which could be lined with lacquers and which would be suitable for emergency use should adequate tin supplies become unavailable. Of course, American also has a stake in the paper container field which, while still very small in relation to total sales and not yet on a profitable basis when allowance is made for capital and developmental costs, may become of greatly increased importance should the can business be seriously impaired. It is quite possible that quick frozen food products, packed in paperboard containers, might be found readily adaptable to military or more general civilian use should the need arise.

Continental Can is also giving attention to the problem of new packing processes and new types of containers, it being brought out at that company's meeting last March that research facilities for this work were to be enlarged. In addition to cans, in which its production volume is about half that of American, Continental produces corrugated paper boxes and is expanding in the cap and seal field.

Aside from blackplate, there are numerous possible alternatives to tinplate for containers. Should tin supplies dwindle and prices rise, substitute materials would no doubt begin to make their appearance. Plastics, paper, glass, aluminum plate, nickel plate and even silver plate are all possibilities. It is improbable, of course, that any single one of these would come into general use; rather, a combination of most or all would seem more likely since the relative merits and economies of each would vary according to various types of containers as well as factors relating to the supply and demand situation with respect to substitute materials in each instance.

In any event, American and Continental would probably be affected to pretty much the same extent by whatever developed along these lines since their division of can business is similar. Continental's output is split about 60-40 between packing and general line cans as against roughly 55-45 in the case of American, but the difference is scarcely enough to be significant. And if American has something to fall back on in its paper container division, the same is true of Continental and its stake in paper boxes and bottle closures. In general line cans, both companies turn out a wide variety of shapes and sizes, some of the more important commodities for which they are used being oil, paint, varnish, chemicals, beer, drugs and tobacco.

If cans provide far and away the largest single use for tin in this country, they do not necessarily constitute the most important use—at least, not from a national defense angle. As has just been noted, the problem of substitutes for the tin can could probably be met without too great difficulty in case of necessity. Elsewhere, however, tin might not be so easily dispensed with.

There are, for example, the babbitt metals, white metal alloys of which the most important are those having tin as a chief constituent. These are used in the manufacture of main bearings and the ends of connecting rods of steam engines and internal combustion engines of all descriptions. Also, there is solder, requisite for obtaining satisfactory adhesion of a white bearing metal containing tin to a steel or bronze journal or liner. Again, there are the die casting tin alloys which, because

Two Leading Can Makers Compared

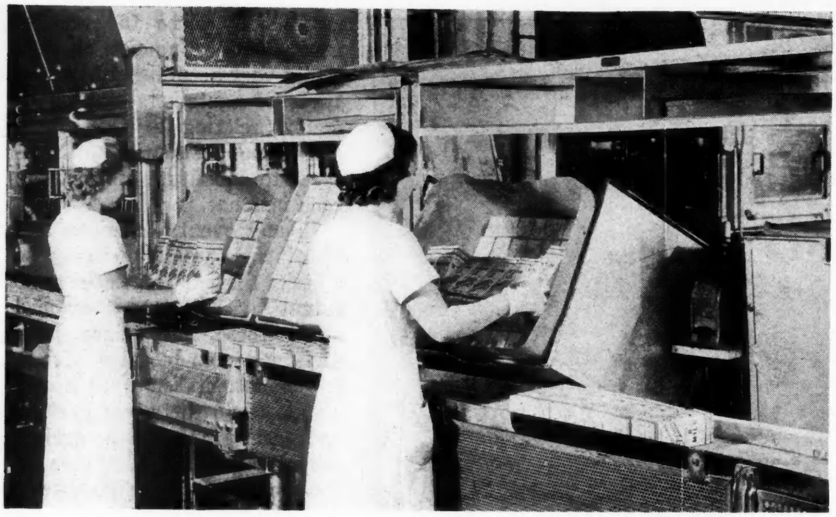
AMERICAN CAN

	Net Sales (millions)	Net Income (millions)	Earned per Share	Paid per Share	Price Range
1939	$189.4	$18.3	$6.22	$4.00	116½- 83¼
1938	168.8	13.6	4.35	4.00	105⅛- 70¾
1937	187.3	17.9	6.08	4.00	121 - 69
1936	170.3	19.2	5.80	6.00	137½-110
1935	150.3	17.3	5.83	5.00	149⅝-110

CONTINENTAL CAN

	Net Sales (millions)	Net Income (millions)	Earned per Share	Paid per Share	Price Range
1939	$117.6a	$8.6	$2.71	$2.00	51¼- 32½
1938	112.1a	7.1	2.17	2.00	49 - 36½
1937	123.4a	8.9	3.06	3.00	69⅛- 37½
1936	118.5a	9.0	3.17	3.25	87¼- 63¾
1935	105.6a	11.2	4.21	2.55	99¼- 62¾

a—Total sales.



Packing Canco fibre milk containers in dust-proof carriers for shipment to dairy.

of their non-adhesive characteristics, can be cast in steel, copper, brass or other metal moulds, and which, due to the low casting temperatures possible, offer long-life qualities. Tin is particularly essential also in printers' alloys.

In these and various other industrial fields, many of them of the first importance from a military and defense standpoint, a tin shortage would loom as a much more serious problem than in the case of containers. Given time, industrial researchers could probably find the answer in most cases, but that would be of little help in any sudden emergency. It is for this reason primarily that the War Department has listed tin as a "strategic" commodity, i.e., one of which little or none is produced domestically, which is of major importance in our industrial set-up and of which a reserve stock must therefore be accumulated by the Government.

Provision for the accumulation of such stocks was made under the Strategic and Critical Materials Act of June, 1939, which fixed a figure of $100,000,000 for the acquisition of such materials. Thus far, however, little actual buying has been done. The Government has puchased less than 6,000 tons of tin though ten or fifteen times that amount will be required if we are to have a really adequate stock. Industrial inventories are probably equivalent to around four or five months' supply. A mitigating factor in the whole situation, however, is that if the worst comes and our tin supplies outside this hemisphere are cut off, Bolivian production can probably be sufficiently expanded to cover all our industrial tin needs aside from tinplate, and perhaps a part of the latter as well.

Apart from the uncertainty as to raw material supplies, the can companies enjoy a generally favorable outlook. Demand for canned goods continues satisfactory and the canning industry is in a substantially more favorable statistical position than at this time last year as a result of small 1939 vegetable crops. Plantings are larger this year, suggesting correspondingly larger packs since indications are that the vegetable crops that comprise two-thirds to three-quarters of the total vegetable pack will show worthwhile increases.

The prospect is also one of increased volume in general line cans as a result of the current upturn in industrial activity following the decline extending over the first four months of the year. Sales of beer cans especially compare favorably with a year ago and it is probable that the record set in 1939 will be surpassed this year. Noting this as one of the fastest growing divisions of its business, Continental reports that the better than 30 per cent sales gain of last year has been maintained at a like rate in 1940. Demand for oil containers is also trending upward and, despite the minor decline in overall construction activity that now seems probable this year, sales of cans to paint and varnish manufacturers are likely to be larger in line with maintenance requirements, increased shipbuilding activity and general industrial use.

Overall can sales volume thus far in 1940 has run from 10 to 15 per cent ahead of a year ago. Biggest selling season comes in the next three months, the third quarter normally accounting for about half of the year's total sales. Thus, the sales showing for the year as a whole has yet to be determined, but current indications are favorable.

Tinplate Prices Govern Profit Margins

As to profit margins, much depends upon tinplate costs, these comprising about 60 per cent of can prices. Can prices are now quoted on an annual basis, having formerly (as regards general line cans) been subject to quarterly changes; just the reverse is the case with tinplate prices, however, which are currently subject to quarterly change though previously fixed for one-year periods. Tin prices have been strong of late, rising particularly sharply with Italy's entrance into the war (though, assuming efficacy of the British blockade as applied to Italy, this will release another 500 tons of tin monthly to Britain and neutral countries). Should this rise be sustained, it would not be surprising to see a mark-up in tinplate quotations which, due to the relative rigidity of can prices, might result in at least a moderate profit squeeze for the can companies pending such time when their own prices could be adjusted.

The effect of the war on exports of canned foods has varied from one type of goods to another. A decline in the canned fruit trade with England resulted from her import restrictions imposed in the middle of March. On the other hand, shipments of canned vegetables and juices continue to compare favorably with last year. With a serious European food shortage probable next winter, greatly increased exports of canned foods at that time are likely to be seen.

Since American issues no interim reports, its earnings progress thus far in 1940 can only be estimated. It is rather certain, however, that (*Please turn to page* 382)

Why Ex-Cell-O is the Market's Favorite Machine Tool Stock

Strategic Position in Aircraft and Tool Industries; Strength in Diversification

BY EDWIN A. BARNES

SALES and earnings last year highest in the company's history . . . backlog of unfilled orders at the start of 1940 largest on record . . . first quarter earnings up more than 280 per cent . . . a 50 per cent increase in the latest quarterly dividend. Such is the impressive background offered by the shares of Ex-Cell-O Corp.

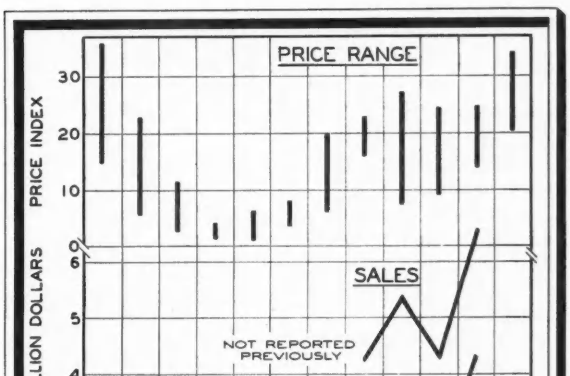
Originally the activities of Ex-Cell-O Corp., were confined largely to the manufacture of various types of precision tools such as diamond drills, cutting, grinding and other devices, but in recent years the company has steadily added new machines, machine tools and other industrial devices to its output. The results have been important not only from the standpoint of broader diversification and less dependence upon a single industrial group of customers, but in terms of profits as well.

Among the products now bearing the Ex-Cell-O seal are included such machine tools as precision boring machines, hydraulic power units, multiple drill heads, thread grinders, carboloy tool grinders, lapping machines and cylinder boring machines; various aircraft engine parts, diesel fuel injection pumps and railroad pins and bushings. One of the company's most recent developments is a machine, known as Pure-Pak, which forms, coats, sterilizes, fills, seals and dates paper containers for milk and other dairy products. The use of paper milk containers has been successfully developed in competition with the familiar milk bottle in an increasing number of larger distribution areas, a trend which Ex-Cell-O should be able to capitalize profitably.

Formerly the bulk of the demand for the company's products originated in the automobile industry. To that extent sales and earnings were closely bound to those of its leading automotive customers. However, the development of new products adaptable for a wider range of industrial uses has materially reduced the relative importance of the automobile industry as a factor in evaluating the company's prospects at any given time.

Last year automobile and automobile accessory manufacturers accounted for 19 per cent of Ex-Cell-O's total sales. This same group in 1935 contributed 60 per cent of sales, while in 1936 the percentage was 48. On the other hand, aircraft engine manufacturers accounted for only 6 per cent of sales in 1935, and 12 per cent in 1936. Last year, sales of aircraft engine parts contributed 19 per cent of sales, while sales to machine tool builders accounted for 6 per cent, government agencies, and the dairy and farm equipment industries 5 per cent each. Foreign sales represented 18 per cent of last year's total. with the balance distributed to a wide diversity of domestic industries.

The ascendancy of the aircraft industry as an outlet for Ex-Cell-O products is particularly significant at a time when the industry is booming under the impetus of huge orders from the Allied forces, while potentially our own defense program promises to not only sustain the demand for aircraft and aircraft engines for many months to come, but will also impart considerable impetus to the demand for machine tools and allied products. In the circumstances, it (*Please turn to page* 378)



Where Do the Baking Companies Stand Today?

Rising Consumer Income Will Offset Price Advances, But No Strong Gains in Profits Are Indicated

BY H. F. TRAVIS

It is almost axiomatic in this country that the quantity of foods consumed in good or bad times varies but little, although the accent upon quality is usually in direct ratio to the spending ability of the consumer.

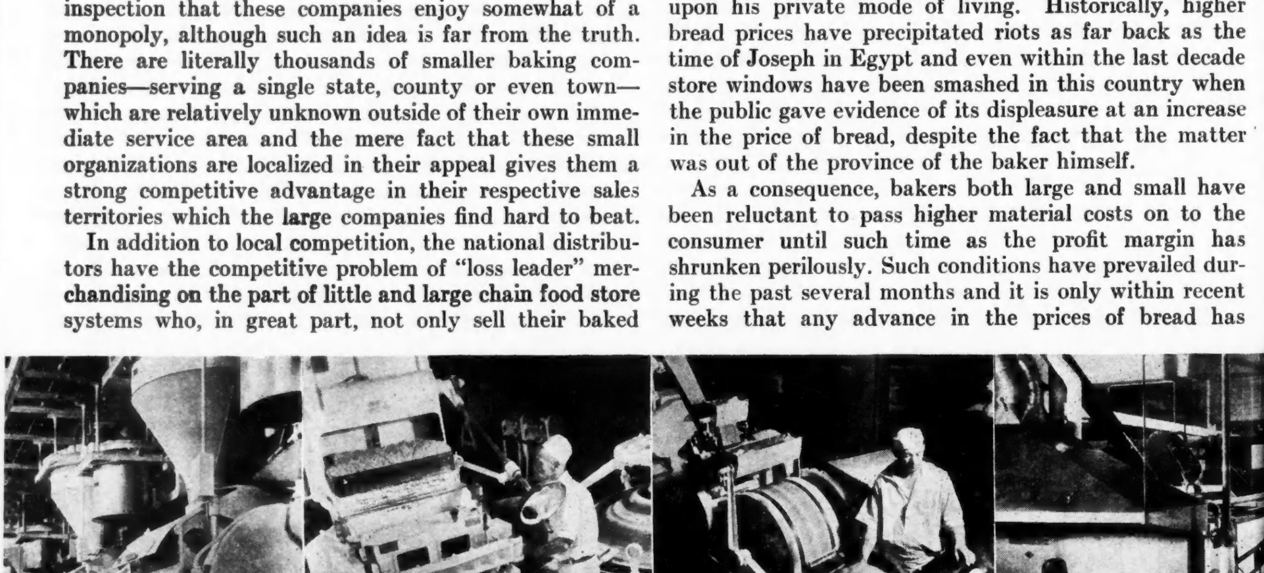
While this is true of the entire food industry it is particularly noticeable in the baked goods trade where good times are reflected in increasingly higher sales of cakes and fancy crackers, although sales of breads and other baked staples change but little.

From the small number of nationally-known bread and specialty bakers in the field it would seem upon first inspection that these companies enjoy somewhat of a monopoly, although such an idea is far from the truth. There are literally thousands of smaller baking companies—serving a single state, county or even town—which are relatively unknown outside of their own immediate service area and the mere fact that these small organizations are localized in their appeal gives them a strong competitive advantage in their respective sales territories which the large companies find hard to beat.

In addition to local competition, the national distributors have the competitive problem of "loss leader" merchandising on the part of little and large chain food store systems who, in great part, not only sell their baked goods at a loss, but also manufacture the products themselves, using quality materials and equally as effective distributing systems as their commercial baking competitors. Not that the same chain stores do not carry the nationally-advertised brands, but these products are forced to compete with the stores' own, good quality products on a price basis that allows but the slimmest margin of profit for the larger manufacturers.

Bread is the problem child of the baked goods industry for it is in this essential article of diet that the consumer sees even the slightest price advance as an assault upon his private mode of living. Historically, higher bread prices have precipitated riots as far back as the time of Joseph in Egypt and even within the last decade store windows have been smashed in this country when the public gave evidence of its displeasure at an increase in the price of bread, despite the fact that the matter was out of the province of the baker himself.

As a consequence, bakers both large and small have been reluctant to pass higher material costs on to the consumer until such time as the profit margin has shrunken perilously. Such conditions have prevailed during the past several months and it is only within recent weeks that any advance in the prices of bread has



The Mixer — The Divider — The Moulder — The Oven

been noted and that advance has been approximately one cent a loaf. While the increase in selling prices has not met with any particular public reprisal, it has not been followed generally by the chain stores and local bakers despite the admittedly increased costs of flour and shortening as compared with a year ago. Rather than risk the possible deflection of buyers to competitive products, the national bakers will probably absorb an increasingly large part of higher costs at the expense of corporate earnings.

Cake Profits Good

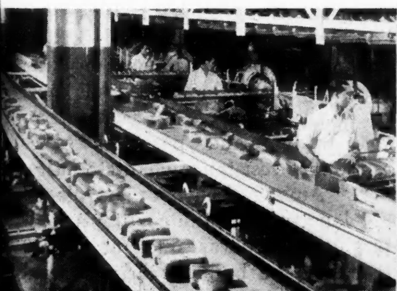
While the staple end of the business is not too well placed there is a mitigating factor that should, in great part, compensate for the probable decline in profits from bread. The bakers, in addition to the bread line, produce cakes, pastries and other baked novelties which are not restricted as to weight or price and which normally afford a much wider margin of profit. When consumer incomes are rising, there is a distinct tendency to purchase increasingly large quantities of luxuries. Cakes and pastries, due to the comparative exclusion from the consumers' diet when incomes are sub-normal, are the first to experience increased demand when the family budgets begin to show some leeway after the more necessitous articles have been provided. Cake business was not so good last year, that is good enough only to offset the higher costs of materials; but the demand has become better this spring as seasonal and other influences have increased business operations and consumer incomes.

The specialty bakers—manufacturers of crackers and biscuits—have much of the same problems of the bread and cake bakers to contend with. The plain crackers, such as "Uneeda" biscuits and the like, are the staple products of the specialty bakers and, like bread, are relatively inflexible as to price and consumption demand. The large variety of sweet crackers and an occasional extra rich, but not sweet, biscuit which happens to appeal to the public's taste furnish the greatest margin of profits, although their sales volume is usually in direct ratio to consumer buying power. Here again we meet the same degree of intense competition from small local bakers whose production and marketing costs are far more flexible than the larger bakers and to whom a relatively small volume of sales represents a fairly high degree of prosperity. Since there is no longer any wide variation in quality between the products of various bakers, large expenditures for advertising and other promotional work must be made in order to hold public preference, especially in territories where local products are up to standard and but only moderately advertised.

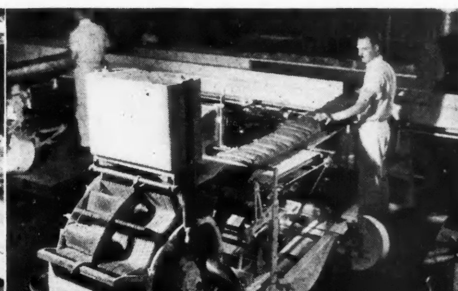
Both the bread bakers and the specialty bakers have one feature in common and that is, both groups lack any apparent possibility for dynamic growth, although the bottom of the decline in long-term earnings seems, for the present at least, to have passed. The earnings of the largest units in both groups fluctuate moderately from year to year in keeping with the longer term trend of business, although at the peak of operations and consumer demand, earnings are never startling in size. Nevertheless, most of the companies have maintained constant dividend payments on their common shares, although, unfortunately, dividend rates have been trending downward generally for the past ten years.

As was stated before, raw material prices have an unusually strong influence upon most baked goods profits due to the relatively inflexible selling prices of the staple products. The outlook for supplies and prices of raw materials has therefore an important bearing upon the near future prospects of the industry. Currently, wheat flour—the most important raw material—is selling about 75 cents a barrel above this time a year ago, although it continues to sell well below the 10-year average and a lesser amount lower than at the close of last year. Increases in the estimates of this year's wheat crop and the probability of no near-term demand of size for exports of either wheat or flour will probably prevent any sharp bulges in the price of this commodity for the next several months. The longer term prospect for stable flour prices is not so bright for, whether the war lasts for long or not, poor European crop conditions, the lack of workers and the destruction of supplies will all combine sooner or later sharply to increase the demand for any food available with the usual economic effects of a greater demand than supply.

The second most important factor in the manufacturing of bread and similar products is shortening. Shortening may be animal, vegetable or both, but, regardless of what it is, current supplies are reasonably large and prices for the most part have shown little change from the levels of a year ago. However, as is the case with wheat, shortening prices are not likely to stay at relatively low levels for long. (*Please turn to page* 383)



Inspection



The Slicer

To the Consumer

Photos courtesy Bond Bread Bakers.

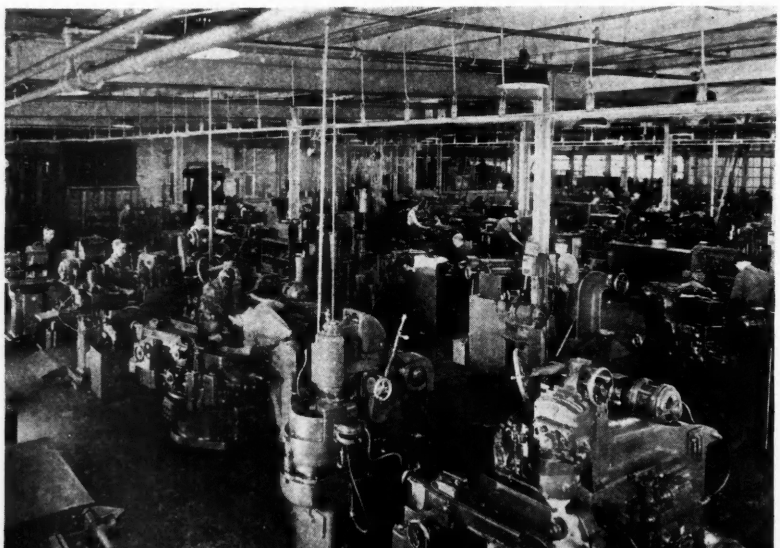
For Profit and Income

Utility Integration

Introducing as evidence some 70 volumes of material consisting largely of reports filed with it by **Electric Bond & Share** and without bothering with the formality of a recital as to what bearing the data or any part of it had on the case at hand, the Securities and Exchange Commission recently took the position that the death sentence clause of the Utility Act of 1935 requires E. B. & S. to dissolve three of its sub-holding companies — **American Power & Light, Electric Power & Light** and **National Power & Light**—thus offering the first intimation of what the agency is going to call for in the way of simplification of corporate structure on the part of the nine utility systems it has selected for initial reorganization. If its general procedure with the remaining systems is anything like that it has chosen to follow in this case, its widely hailed decision to make its ideas on the subject known to the utilities affected will prove less helpful than otherwise. Almost certain in the specific case cited is a resort to the courts on the part of the utility company.

Freight by Air

Though it is still probably a year or two away, the country's **air carriers** are definitely on the way to setting up a freight hauling business. First, however, a new type of plane, larger and generally more suitable than the present passenger ship for carrying sizable freight loads, must be developed. Several of the airlines are known to be conferring on the problem in order that a standardized unit may be developed by one or more of the aircraft companies, certainly **Douglas** among them and perhaps also **Lockheed.** The jam of war business in the aircraft plants is, of course, a retarding factor and presumably will continue so as long as the European conflict lasts and as long after that as plant capacity remains seriously inadequate to meet our own aerial defense needs. This problem, in fact, looms as a difficult one for the airlines even with respect to passenger planes now on order. With traffic mounting rapidly, virtually all lines are currently experiencing an equipment shortage but are unable to get delivery of most new fleet units now on order for some time ahead.



Courtesy Monarch Machine Tool Co.

Machine tools are among basic essentials in production of other machines. Relationships in the industry are complex and—in point of speed, at least—completely interdependent.

Armament Notes

At least one automobile company is now definitely in the munitions business; **Willys-Overland** reports that it has submitted bids on light armored cars, shell casings and bombing plane parts. * * * **U. S. Rubber** has announced a new airplane armor plate of rubber and steel which, it says, is 20% lighter than steel armor and possesses superior bullet resistance characteristics. * * * Among French orders placed not long prior to the country's military collapse was one for 10,000 trucks to be built by **Chrysler** and **General Motors;** the question arises as to whether these contracts will now be taken over by the British. * * * **American Car & Foundry** is understood to have begun delivery on its $6,000,000 order from the

U. S. Government for 329 tanks; company is also equipped to turn out torpedo boats, sub-chasers and artillery shells.

Chemicals Doing Well

Operations of the leading chemicals in the quarter now drawing to a close have measured up to and in most cases surpassed the entirely satisfactory rate established in the first quarter of the year. **Du Pont,** for example, will probably realize per share earnings of $1.40 or better from chemical operations alone, and dividend receipts on its **General Motors** investment should lift the total to around $2.30. **Hercules Powder's** results may be down slightly from the initial three-month period of 1940—say, about $1.20 against $1.22 last quarter. On the other hand, **Air Reduction** and **Union Carbide,** each with an important stake in the steel and metal consuming industries, are likely to report about 65 cents and $1.20 per share, respectively, against 53 cents and $1.13 for the March period. Also, **American Cyanamid** is expected to show at least a small gain over the 62 cents earned in the first quarter.

Auto Outlook

Prospects for the automobile industry, according to some Street sources that follow the situation fairly closely, are not exactly inspiring under prevailing conditions and, more particularly, under those that seem likely to obtain in the not too distant future. Auto sales for private use, it is held, are likely to decline, what with the much heavier tax load that consumers will soon be called upon to bear in connection with the emergency armament program. And while the motor plants will probably be kept busy turning out ordnance items, it is pointed out that profit margins on this type of business will be strictly limited. Further, the export market as far as Europe is concerned—and this has not been unimportant to the motor makers—has now been almost completely lost, nor does it seem likely to be recovered within the foreseeable future. None of these factors may become operative to a very marked degree as far as their effect on earnings goes within the immediate future, but they are held to be of fundamental importance in any longer range appraisal of the auto industry's outlook.

Raw Material Problems

With long established world trade routes over the world's seas rapidly being cut off as a result of the war, the problem of adequate raw material supplies is beginning to demand more and more of the attention of companies dependent on supplies from other parts of the globe; in most cases, however, the threat of a shortage has yet to be realized. **American Tobacco, Reynolds** and **Liggett & Myers.** for example, are reported to have about two years' supplies of Turkish tobaccos on hand. **Armstrong Cork** reports that it is not seriously handicapped by the closing of the Mediterranean and can still obtain all the cork it needs from Spain and Portugal via Lisbon. And the **rubber companies** now appear sufficiently well advanced in the development of synthetics to change over to the latter without too much difficulty should the need arise, though substantial new plant investment would naturally be required. For some concerns, moreover, the stoppage or curtailment of certain imported materials has been a windfall, a case in point being **Freeport Sulphur,** now cashing in on its Cuban manganese properties with the drop in shipments of Russian manganese.

Specialty Steels

For the most part, the specialty steel and closely allied concerns seem likely to share fully in the industrial boom that is getting under way in conjunction with the armament program. Companies in this category, notably better earners when the going is rough for the heavy steel makers, lose little or nothing by that fact in a setting such as exists today. **Rustless Iron and Steel,** for example, with net income of $312,847 for the first quarter of 1940 against $193,724 in the like period of last year—equal, respectively, to 31 and 20 cents per common share after allowances for

(Please turn to page 384)

Companies in Line for Armament Business

Listed below are some of the better known concerns that have received educational armament orders between the beginning of the present Government fiscal year and the early part of June, and are presumably in line for a much larger volume of orders now that the armament program is getting under way in earnest. The list is not all-inclusive. Also, there are quite a number of companies that will handle business of this sort even though they have not received educational orders.

Company	*Type of Equipment*
Chrysler Corporation	Bomb fuses, 75 mm. shells, cartridge cases
Dresser Manufacturing	81 mm. shells (forgings)
American Car & Foundry	Demolition bombs (metal parts); is already delivering large tank order
National Cash Register	Point detonating fuses (metal parts)
Singer Manufacturing	Automatic pistols
Armstrong Cork	75 mm. shells (machining)
General Railway Signal	75 mm. shells (machining)
New York Air Brake	75 mm. shells (machining)
General Motors	75 mm. shells
Pressed Steel Car	75 mm. shells (forgings)
Colorado Fuel & Iron	155 mm. shells (forgings)
Minneapolis-Moline	155 mm. shells (machining)
Eastman Kodak	Anti-tank gun telescopes, aiming circles, height finders
Firestone Tire & Rubber	Gas masks
Goodyear Tire & Rubber	Gas mask carriers and gas mask parts
Stromberg-Carlson	Field telephones
Baldwin Locomotive	Artillery shell forgings, light tanks
Elgin National Watch	Mechanical time fuses
General Electric	Wire and related items
Anaconda Wire & Cable	Wire and related items
Phelps Dodge	Wire and related items
Mergenthaler Linotype	Telescopes, aiming circles, azimuth instruments
Philadelphia Storage Battery	Point detonating fuses (metal parts)

Six Safe Stocks for Income and Protection

Offering Attractive Yield with Potentiality of Moderate Appreciation

BY THE MAGAZINE OF WALL STREET STAFF

S. H. KRESS & CO.

S. H. Kress & Co., operating approximately 240 stores of the "5 & 10" type, mostly in the southern states, is the outgrowth of an organization formed in Tennessee in 1896. Sales have continued to grow almost uninterruptedly for the last 40 years and while those for 1939 ($84,851,373) were somewhat below the peak of $87,871,478 achieved in 1937, the sales in the first five months of 1940 were 5.9 per cent above those of a year ago and it is probable that this year will see the establishment of new high record sales.

Profit margins, while modest, have been well maintained, approximating 6 per cent on each dollar of sales volume. The character of the merchandise sold and the rapid turn over of goods prevents any serious inventory losses or "sticky" merchandise. The financial position of the company is generally strong. Net working capital at the close of 1939 was approximately $19,892,800—apparently ample for the company's needs and current assets of $24,528,398—of which more than $10,000,000 was cash—were better than five times as large as the then total current liabilities.

There is no funded debt nor bank loans ahead of the 720,892 shares of 6 per cent dividend, $10 par value preferred stock and 2,351,674 shares of no par value common stock. While the preferred stock is cumulative as to dividends it is also callable at 10 per cent premium at any time on thirty days notice. The common stock was split two for one in 1936.

The dividend record of both the preferred and common stocks is good. Preferred dividends have been maintained uninterruptedly since 1927 when the shares were issued and on the common stock as far back as 1918, beyond which time there was no public interest of size and therefore no available records. Last year, four quarterly distributions of $0.40 a share on the common stock were made, the same as for the two previous years. Prior to that time it was customary to supplement a well maintained $1 a share rate with frequent extras, a condition which may well again prevail as slowly growing earnings may seem to warrant. The stock has not been an active market performer in recent years although at current prices the dividend return of around 6 per cent should prove attractive especially in view of the excellent record of the company and its progress.

DIAMOND MATCH CO.

Diamond Match Company is probably best known in this country for two things: the fact that its stockholders control approximately 90 per cent of the American match industry and the record of its president, W. A. Fairburn. That the stockholders of Diamond Match control about 90 per cent of the American match industry is not a mis-statement for it has long been a custom of the company to acquire control of a competitive company and then to pass the shares on to the Diamond Match stockholders in the form of a dividend. Mr. Fairburn, an outstanding example of an American business man and a "rugged individualist" has been with the Diamond Match for the past 30 years and during that time has brought the company up to its present impregnable position and, above all, has made the business practically depression proof.

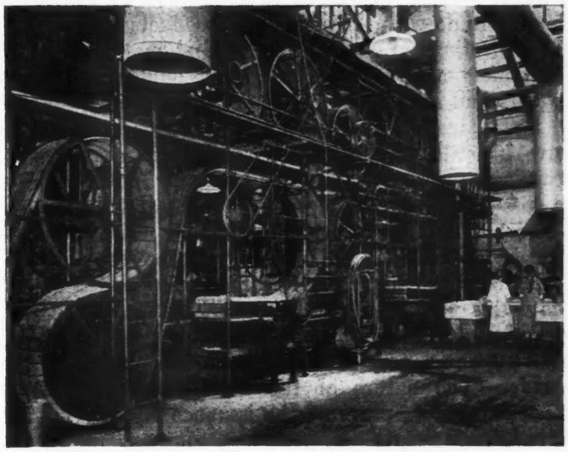
Mr. Fairburn's reconstruction of the company is one of the sagas of American initiative and success which includes a decisive victory over the late Ivar Kreuger when he sought to establish himself in the match business in this country and a battle royal with the S E C which was not, however, productive of victory for Mr. Fairburn although the struggle was an epic. Fairburn not only whipped Kreuger but did it in such a manner that the company profited to a total extent of $10,337,500 and eventually the amount of Diamond Match common outstanding was reduced from 1,050,000 shares to the present amount of 700,000 shares.

Operations of the company are not designed to show phenomenal gains and declines but rather to average out over the years. For instance, net income for the past ten years has ranged between a high of $2,427,497 in 1930 and a low of $2,036,929 in 1932. Last year's net income was $2,136,750 as compared with $2,073,862 a year before and $2,111,959 for the year 1937. For the first quarter of the current year net income was reported as $513,820

or $0.41 a share as compared with $529,661 or $0.43 a share a year before. For the ten year period earnings per share have averaged $1.56 as compared with $1.64 for 1939 and $1.60 for the year previous to that.

While earnings have continued to be steady financial conditions have been strong. Of the total assets shown on the books, approximately 94 per cent or $32,000,000 are liquid. Cash—customarily around $2,000,000—has always been adequate for the company's needs.

Dividends have been paid on the common shares outstanding in every year since 1889 and on the 600,000 shares of $1.50 dividend preferred since issuance in 1931. Common payments have been accompanied in some years by an extra disbursement of some sort although there is no set rate. Despite the fact that the company is a leader in the match field, less than half of the company's income is obtained from that source. Lumber, wooden and paper ware and products, chemicals and other lines furnish the larger part of annual sales. While not ordinarily attractive for short term capital appreciation, the recent decline of about 25 per cent in market value makes the share suitable not only for income but for moderate appreciation as well.

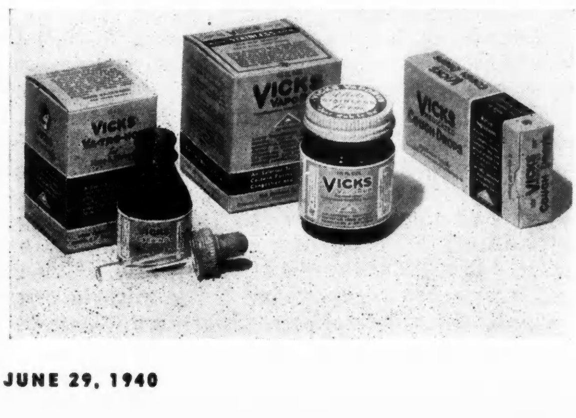


Drying machines at Diamond Match Co.

VICK CHEMICAL CO.

Up until 1938, Vick Chemical was confined to a small line of products built around the company's original product Vaporub. The items were well known and highly publicized but they did confine the company's sales to strictly seasonal lines and at the same time made weather conditions and public purchasing power strong factors in control of earnings. Partially to overcome this one-product business, Vick acquired the W. S. Merrell Co. in 1938. Merrell manufactures a line of ethical preparations, which are not advertised extensively, but are nevertheless well regarded in the medical profession. The diversification is not large in point of contributions to net income but it was a step in the right direction which will later be expanded and probably added to as time and opportunity permits.

Annual sales, which have ranged in recent years between $8,000,000 and $10,000,000, have produced considerable net income since the margin of profits is large. Net income per share of common stock has therefore ranged from $3.21 to as high as $4.23 a year during the past four years as compared with $4 a share reported for the fiscal year which ended June 30, 1939. Earnings in the first 9 months of the current fiscal year—to March 31, 1940—were equal to $3.67 a share as compared with $3.87 a year before and, based upon seasonal factors as well as the weather which has prevailed during the last six months of the 1940 fiscal period, it is possible that the 1937 pre-depression record figure of $4.23 a share of common stock will be exceeded.



Much of the company's business is from foreign countries although none of the plants (with the exception of the one in Belgium) is within combat areas. Most of the foreign facilities are in Africa, Australia, Mexico, Spain and South America and, of course, Canada and England. The dividend record has been well maintained since the company was segregated from the control of Drug, Inc., the former holding company. Regular and extra payments during the calendar year of 1939 were equal to $2.40 a common share and since that time a $1.80 dividend has been distributed. The 694,580 shares of capital stock now outstanding represent the sole capital obligation of the company. While the shares do not offer any dynamic growth possibilities they do present a high rate of assured income and moderate possibilities of capital appreciation over the longer term.

GENERAL MILLS, INC.

General Mills is probably not so well known to the public as the trade names of many of its products which are not only generally advertised in nearly all of the printed media but are also strongly publicized via radio. "Wheaties—the breakfast of champions," Corn Kix, Gold Medal Flour, Bisquick, Softasilk cake flour and many other General Mills trade names have become household by-words. The company is a trail blazer in marketing methods and scientific production and withall, despite the continued accent on the quality of its products, they are none of them priced above competitive articles.

The company has cultivated stockholder good will as well as that of the trade and both of these activities have been profitable to the company. In addition to the formal annual meeting held at Wilmington, Delaware, during the summer, the company has held a number of informal meeting in various key cities for the benefit of the local shareholders who would not be able to attend the main event. At these meetings company

affairs are discussed and lectures and slides are presented having to do with the company's products and methods. The meetings are well attended and make many new customers as well as many more unofficial publicity agents and salesmen.

Sound business policy in an industry where speculative hazards are heavy has resulted in a remarkable earnings record whereby the company never reported a loss in all of the depression years and went on to almost double 1929 earnings last year. The company's fiscal year ends May 31 and as yet there are no indications of what the results for the period ended on that date this year may be. However, if the $7.69 a share reported for the last fiscal period be equalled in the current one a very satisfactory showing will have been made. The nature of the business with its strong seasonal factors prevents the issuance of truly informative interim figures.

Recent refinancing of a 6 per cent preferred stock issue with 223,057 shares of new 5 per cent dividend preferred will add about $0.33 a share to common stock earnings. The financial position is usually strong, cash items alone at the time of the last balance sheet date were about double the then total current liabilities of $6,861,000. Dividends have been paid upon the common shares at the rate of $3 yearly and often the regular payments have been accompanied by substantial extras. In the last calendar year common stockholders received $3.75 a share. Further payments are likely.

MELVILLE SHOE CORP.

Melville Shoe Corp. is one of the largest distributors of shoes in the country. Distribution is obtained through an extensive system of chain stores under the well known name of Thom McAn—specializing in low priced but good quality shoes for men and women—and the higher priced line of John Ward Shoes also sold through a smaller chain of stores. Thom McAn shoes average around $3 a pair in price while the John Ward shoes sell from about $5 to $8 a pair. A smaller chain, the Frank Tod stores, also sells Melville shoes. In addition to the line of shoes all of the stores feature both men's and women's hosiery of which nearly 12,000,000 pairs were sold last year.

Late last year Melville Shoe Corp. acquired the J. F. McElwain Co., manufacturers of shoes, most of which were purchased by Melville in the past for sale through the latter's Thom McAn chain. This merger rounds out Melville's organization as it furnishes the company with needed manufacturing facilities and likewise adds to profits.

In order to facilitate the merger, Melville's common stock was split two for one and 100,000 shares of new $5 dividend preferred stock were authorized. During the recapitalization, a small issue of 6 per cent preferred was eliminated and there are now outstanding 98,260 shares of the new $100 par value, 5 per cent dividend preferred as well as 918,896 shares of common stock out of an authorized 1,300,000 shares.

Last year was highly profitable for Melville Shoe Corp. and as a result earnings of about $5.29 a share on the then outstanding common shares were reported. These figures did not include those of McElwain for the latter company was acquired too late for inclusion in the year's results. McElwain had a net of $986,289 for 1939 which, if it had been added to that of Milville would have given a consolidated total of better than $3,000,000 net income for the year. Earnings for the first half of 1940 are expected to be in the vicinity of $1,500,000 net, compared with but slightly more than $1,005,000 for the same period of 1939. This year's earnings should approximate $3 a share of common stock as it is now constituted or equal to about $6 a share on the common stock outstanding toward the close of last year. An initial dividend of 50 cents a share on the new common stock indicates that there has been no change in the comparative rate of $2 per annum per share paid last year. Dividends have been consistently maintained since 1916 on the various amounts of common stocks outstanding since that time although rates have varied from time to time. The shares are not over-active market wise but at current prices they are selling to yield close to 7 per cent, an attractive return when the consistency of earnings and the improved prospects as well as the strong trade and financial position of the company is considered.

COMMONWEALTH EDISON COMPANY

Commonwealth Edison supplies the metropolitan area of Chicago and an equally active manufacturing area extending from that city to the Mississippi River with a variety of public utility services including electricity and gas. As a result of important dependence upon industrial loads the company's variations in gross revenues represents an excellent graphic illustration of the course of general business, not only in the service area but also throughout the country as well. As might be expected 1939 gross revenues showed a fairly sharp gain over those of 1938 despite the fact that electric rates had again been reduced. Kilowatt hour sales in the year showed gains of approximately 14 per cent above those of the previous year and by coincidence, the gains of the entire electric production industry were about the same as Commonwealth Edison. Gas revenues in the Chicago territory reflected, perhaps even more, the increased industrial activities in that district with an increase of 6.4 per cent in dollars and 17.7 per cent more thermal units being sold. Added to large industrial load, the company enjoys a well sustained domestic load which is second in size only to the most prolific New York Metropolitan area. The major difference in this case being that the Chicago area is served principally by Commonwealth while several large utility systems serve the New York district.

Commonwealth Edison has been alert to changing money conditions with the result that several financing operations have consistently reduced fixed charge obligations while at the same time adding to the amount of net income which accrues to the common stock. Last year the company replaced its entire direct funded debt with obligations carrying coupons ranging from 3¼% to 3½% and through conversion features the original $129,431,400 debenture issue sold since mid 1938 was reduced to $41,138,000 as of March 31, 1940. Although net income has been showing heavy gains in recent months, net per share of com- (*Please turn to page* 384)

Westvaco Chlorine

Caustic Soda and Chlorine Enjoy Broad and Growing Markets

BY GEORGE L. MERTON

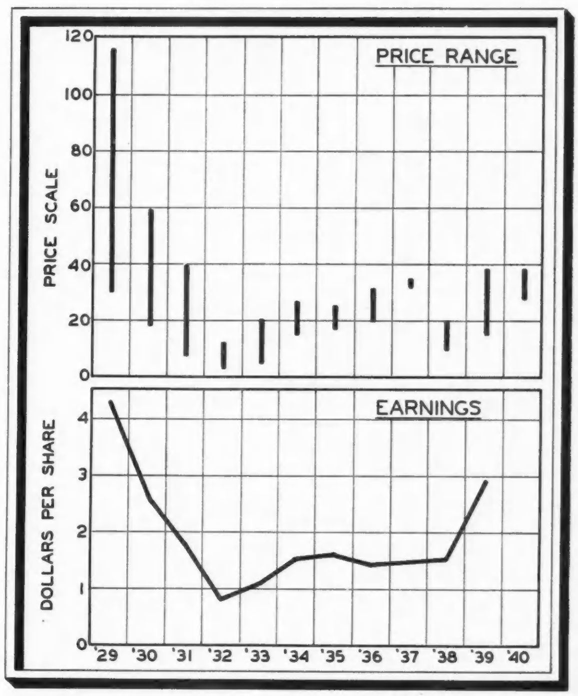
ALTHOUGH in point of size Westvaco Chlorine is outranked by at least a dozen other chemical manufacturers, the company is one of the leading units in its particular division of the chemical industry—caustic soda and chlorine—and its record of sustained profits over an extended period of time stacks up very favorably with that of many companies which overshadow Westvaco in size. For all of 1939, the company's sales and earnings were the largest in its history, a showing which was by no means general either in the chemical or other major industrial fields. In an important measure this achievement reflected the results of successful development of new lines and an increasingly wider variety of sales outlets.

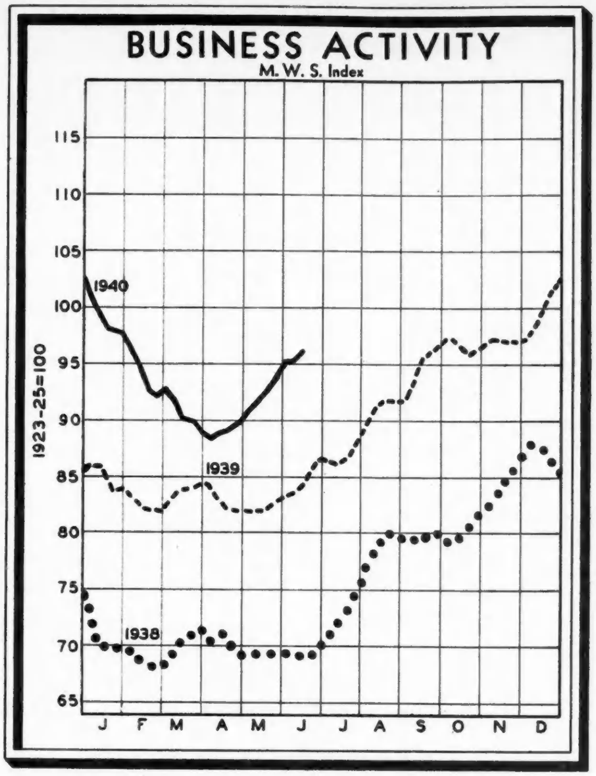
Primarily Westvaco Chlorine is engaged in the manufacture of caustic soda and chlorine, co-products obtained from ordinary table salt and produced in a single chemical operation. Caustic soda is a valuable alkali and an important industrial chemical, used in substantial quantities in the manufacture of rayon and cellulose film, soap, textiles, petroleum products, chemicals and paper. Of these the manufacture of rayon and cellulose film affords the most important outlet, and has contributed the principal impetus to the rising trend of output in recent years. Caustic soda manufactured by an electrolysis process is competitive with soda ash. Formerly the latter was accorded considerable preference, but in recent years improvement in manufacturing technique, resulting in the purification of electrolytic caustic soda, has almost entirely overcome the advantage of soda ash. At the same time, however, the rayon industry has successfully developed improved reclamation methods with the result that the trend of consumption of caustic soda has only partially reflected the tremendous growth in the output of rayon products in recent years.

Chlorine, on the other hand, has been accorded increasingly wider industrial acceptance with the development of new uses and processes. The bulk of Westvaco's output is sold under contract to Union Carbide, where it is utilized in the manufacture of Prestone and an extensive line of solvents. Practically every large chemical company uses sizable quantities of chlorine, in fact the chemical industry itself affords the most important outlet. Next in importance is pulp bleaching, while lesser quantities are used in textile bleaching, sanitation purposes and various miscellaneous applications. Of particular promise, and a large potential source of chlorine consumption, is the rapidly growing domestic paper industry in the South.

In addition to caustic soda and chlorine, Westvaco products include carbon bisulphide and carbon tetrachloride which find valuable application in the rayon, rubber and petroleum industries. The company also produces phosphoric acid and phosphates, used in various branches of the food industry, as well as by silk manufacturers and dye works and for water softening purposes. Another product, magnesium oxides, are utilized for refractories by steel mills.

For some time Westvaco's contract with Union Carbide & Carbon not only accounted for an important proportion of sales but was also a stabilizing factor during periods of restricted demand from other sources. This contract expires early in 1942, but carries the privilege of extension by Union (*Please turn to page* 383)





CONCLUSIONS

INDUSTRY—Huge home defense expenditures, once in full swing, should neutralize the depressing influence of an early Nazi-Allied peace.

TRADE—Department store sales spurt with sudden arrival of summer temperatures.

COMMODITIES — Supply and demand factors, rather than war, dominate commodity price trends.

MONEY AND CREDIT—Gold movement greatly accelerated. Brokers' loans at record low; commercial borrowings rise.

The Business Analyst

Greater than normal seasonal slackening in Automobile production by way of adjusting unduly heavy field stocks, and a sharp drop in Check Payments consequent upon a smaller volume of transactions in the stock market, have served to counteract an extraordinarily sharp rise in Steel operations and produced a temporary flattening during the past fortnight in the Nation's per capita volume of **Business Activity**, at a level fractionally better than 95% of the 1923-5 average.

* * *

The surrender of France is bound to have momentous political, military and economic repercussions in the United States, which would be magnified in the tragic event that England should be forced to succumb later. As an immediate outcome of developments in Europe up to time of present writing, France's unfilled war orders, amounting to some $500 millions, have been taken over by England, and our own defense budget has already been raised to $10 billions. Should England be defeated in the bitter struggle that lies ahead, the war contracts of both nations would probably be taken over by our own Government, and defense appropriations raised still farther—perhaps to $25 billions, a figure mentioned by military experts as requisite for hemisphere protection. The

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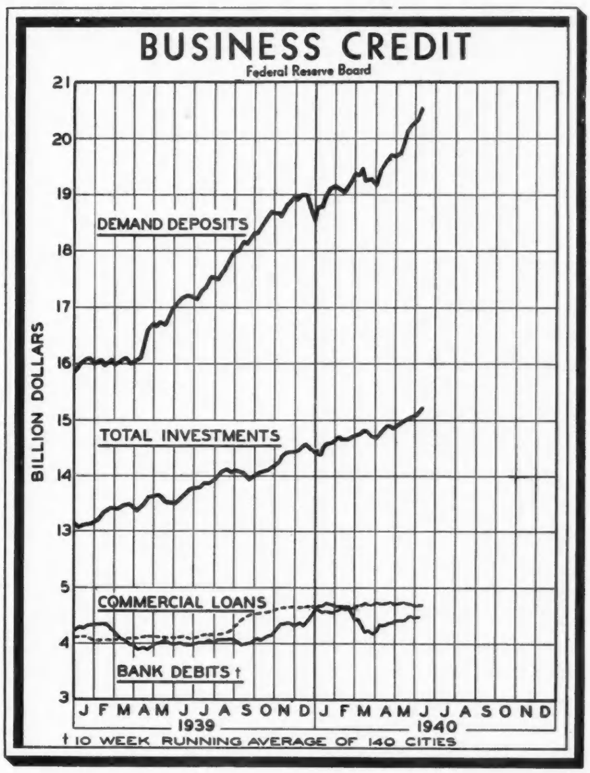


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	May	105	102	92
INDEX OF PRODUCTION AND TRADE (b)	Apr.	86	87	81
Production	Apr.	86	87	79
Durable Goods	Apr.	73	75	64
Non-durable Goods	Apr.	93	94	87
Primary Distribution	Apr.	82	82	75
Distribution to Consumers	Apr.	92	92	90
Miscellaneous Services	Apr.	88	89	83
WHOLESALE PRICES (h)	May	78.4(pl)	78.6	76.2
INVENTORIES (n. i. c. b.)				
Inventories	Apr.	131	131	111
New Orders	Apr.	102	93	84
Shipments	Apr.	109	109	87
COST OF LIVING (d)				
All items	May	86.0	85.9	84.8
Food	May	80.6	79.9	78.1
Housing	May	86.7	86.7	86.2
Clothing	May	73.1	73.2	72.1
Fuel and Light	May	84.1	85.4	84.0
Sundries	May	97.0	97.0	96.6
Purchasing value of dollar	May	116.3	116.4	117.9
NATIONAL INCOME (cm)†	Apr.	$5,906	$5,938	$5,654
CASH FARM INCOME†				
Farm Marketing	Apr.	$559	$537	$478
Including Gov't Payments	Apr.	625	604	568
Total, First 4 Months	1940	2,615	......	2,341
Prices Received by Farmers (ee)	May	98	98	90
Prices Paid by Farmers(ee)	May	123	123	120
Ratio: Prices Received to Prices Paid (ee)	May	80	80	75
FACTORY EMPLOYMENT (f)				
Durable Goods	Apr.	9.50	95.9	83.9
Non-durable goods	Apr.	103.3	104.8	103.3
FACTORY PAYROLLS (f) (not adjusted)	Apr.	96.3	98.2	85.5
RETAIL TRADE				
Department Store Sales (f)	May	87	89	85
Chain Store Sales (g)	May	117	115	110
Variety Store Sales (g)	May	121	119	115
Rural Retail Sales (j)	May	133.8	125.4	131.2
Retail Prices (s) as of	June 1	92.8	92.8	89.1
FOREIGN TRADE				
Merchandise Exports†	Apr.	$324.0	$351.3	$231.0
Cumulative year's total† to	Apr. 30	1,391.8	......	930.4
Merchandise Imports†	Apr.	212.2	216.7	186.3
Cumulative year's total† to	Apr. 30	870.6	......	713.1
RAILROAD EARNINGS				
Total Operating Revenues★	1st 4 mos.	$1,307,422	......	$1,179,891
Total Operating Expenditures★	1st 4 mos.	992,272	......	921,547
Taxes★	1st 4 mos.	122,849	......	113,852
Net Rwy. Operating Income★	1st 4 mos.	148,930	......	101,284
Operating Ratio %	1st 4 mos.	75.9	......	78.10
Rate of Return %	1st 4 mos.	2.29	......	1.56
BUILDING Contract Awards (k)	May	$328.9	$300.5	$308.5
F. H. A. Mortgages				
Selected for Appraisal†	Apr.	128.2	114.0	105.7
Accepted for Insurance†	Apr.	76.9	63.6	64.9
Premium Paying†	Apr.	47.7	46.2	46.2
Building Permits (c)				
214 Cities†	May	110.2	97.8	95.6
New York City†	May	16.1	24.8	15.9
Total, U. S.†	May	126.3	122.6	111.5
Engineering Contracts (En)†	May	282.3	211.8	253.0

PRESENT POSITION AND OUTLOOK

(Continued from page 369)

loss of a large portion of our two-way commerce with France—which averaged $20 millions monthly in 1939, and $57 millions monthly for the current year to date—will hurt a number of lines in the United States and is a serious blow to farmers, particularly our cotton growers; but the huge resulting increase in expenditures for home defense, once under way, should give a large net boost to **employment** and total Business Activity.

* * *

It is not beyond the range of possibility that our next President, be he Republican or Democrat, will be vested by Congress with virtually dictatorial powers before the expiration of his first term in office, with the object of meeting more promptly and effectively the potential threat to America of an outside world controled by covetous tyrants. Huge expenditures for preparedness, once in full swing, will neutralize the deflationary drag upon domestic business activity that would result from establishment of peace in Europe; but only united and zealous devotion to the high ideals of democracy can save America from the menace of economic and political infiltration into other regions of the western hemisphere, and the combined naval threat of hostile nations, including Japan, should Hitler secure control of both the British and French fleets. On the principal that to be forewarned is to be forearmed, it is far better that we start preparing for the worst possibilities now rather than hypnotize ourselves into a sense of false security, thereby repeating the fatal mistakes made by the Allies.

* * *

Sudden appearance of summer temperatures lifted **department store sales** during the week ended June 8 to a level of 14% above last year, against a four-weeks' gain of only 3%. Inventories in the New York area on June 1st were only 0.2% above last year. **Chain store sales** during May were 7.3% ahead of the like month in 1939, with **mail order sales** rising 11.9% and **variety store sales** gaining 4.8%. May **exports** were 28% larger than a year ago in value, compared with the April increase of 39%.

* * *

Aided by a 50% rise in export shipments to Atlantic and Gulf ports, **railroad** freight revenues in May showed a 15% gain over the like month of 1939; though passenger revenue dropped 7%. Present opinion is that the Government will not interfere with rail operations or profits during the coming era of home defense activities; but it is estimated that granting of current union demands for vacations with pay would add at least 4% to payrolls.

* * *

Engineering construction awards during May were 12% above the like period in 1939; reducing the current year's cumulative decline to 16%, with private awards up 14% and public down 26%.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	May	4,841	3,975	3,295
Pig Iron Production in tons★	May	3,514	3,137	1,924
Shipments, U. S. Steel in tons★	May	1,084	908	796
AUTOMOBILES				
Production				
Factory Sales	May	391,251	432,746	297,542
Total 1st 5 Months	1940	2,083,892	......	1,652,251
Registrations				
Passenger Cars, U. S. (p)	Apr.	348,632	312,371	268,335
Trucks, U. S. (p)	Apr.	50,000(pl)	53,093	46,063
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	May	413,770	355,224	335,887
Shipments, U. S. & Canada★ (tons)	May	423,353	352,546	359,078
Mill Stocks, U. S. & Canada★ (tons)	May	221,647	231,230	209,374
LIQUOR (Whisky)				
Production, Gals.★	May	11,504	11,223	7,972
Withdrawn, Gals.★	May	5,848	5,793	4,866
Stocks, Gals.★	May	482,553	477,865	478,741
GENERAL				
Paperboard, new orders (st)	Apr.	480,250	392,794	347,575
Machine Tool Operations (pc)	May	92.5	93.4	63.6
Railway Equipment Orders (Ry)				
Locomotive	May	20	50	51
Freight Cars	May	2,081	1,812	2,056
Passenger Cars	May	1	0	0
Cigarette Production†	May	16,275	14,820	15,445
Bituminous Coal Production★ (tons)	May	35,468	32,962	17,927
Portland Cement Shipments★ (bbls)	Apr.	10,829	7,715	9,654
Commercial Failures (c)	May	1,238	1,291	1,334

PRESENT POSITION AND OUTLOOK

Domestic retail sales of **automobiles** in May were 20% ahead of the like month of 1939, and demand for used cars has picked up considerably in centers where employment has already benefited from war orders. Recent settlement of UAW-General Motors differences foreshadows a period of comparative freedom from labor disputes within the industry.

* * *

Railroad equipment orders during the first five months numbered 6,350 freight cars, 21 passenger cars and 156 locomotives; compared with 7,753, 121 and 144, respectively, for the like period of 1939. Since the carriers will have 100,000 more cars available this autumn than last year, it is believed that further orders to prepare for handling additional traffic resulting from home defense activities need not exceed 30,000.

* * *

Consumers and dealers are stocking **liquor** in anticipation of a probable advance of 30 to 35 cents a quart which would result from enactment of the proposed new tax. At present writing, thought, it seems likely that additional taxes will not be imposed in the near future upon **cigarette** manufacturers. Owing to excessive dealer inventories, **shoe** production in May was over 8% below last year; but retail sales now are exceeding output.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	June 15	96.4(pl)	95.8	84.5
ELECTRIC POWER OUTPUT				
K.W.H.†	June 15	2,516	2,453	2,265
TRANSPORTATION				
Carloadings, total	June 15	712,445	702,571	633,955
Grain	June 15	30,456	28,161	38,811
Coal	June 15	121,561	118,244	97,176
Forest Products	June 15	34,280	34,338	30,555
Manufacturing & Miscellaneous	June 15	293,460	287,072	258,938
L. C. L. Mdse	June 15	148,354	148,260	152,513
STEEL PRICES				
Pig Iron $ per ton (m)	June 18	22.61	22.61	20.61
Scrap $ per ton (m)	June 18	19.92	19.17	14.75
Finished c per lb. (m)	June 18	2.261	2.261	2.236
STEEL OPERATIONS				
% of Capacity week ended (m)	June 18	87.0	85.5	54.0
CAPITAL GOODS ACTIVITY (m) week ended	June 15	84.8	82.4	68.3
PETROLEUM				
Average Daily Production bbls.★	June 15	3,816	3,817	3,447
Crude Runs to Stills Avge. bbls.★	June 15	3,620	3,600	3,490
Total Gasoline Stocks bbls.★	June 15	97,660	99,471	82,244
Fuel Oil Stocks, bbls.★	June 15	75,487	75,399	82,669
Crude—Mid-Cont. $ per bbl	June 21	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	June 21	1.98	1.98	1.48
Gasoline—Refinery $ per gal	June 21	.06¼	.06¼	.06⅛

PRESENT POSITION AND OUTLOOK

Electric power output has just risen to new record heights for this season of the year, with the margin of increase over last year widening to 11.1%. It is now reported that the Federal Power Commission will not push construction of its proposed grid system for interconnection of eastern electric power systems; but will urge voluntary hook-ups of power plants, where indicated as advisable in the interest of national defense, before asserting its authority to force such action. The SEC is asking holding company officials to expedite a test in the courts of its narrow interpretation of "death sentence" provisions of the Utilities Act. If the SEC's interpretation should be sustained, private control under one management would be restricted to plants situated in contiguous states.

* * *

Barring an early peace in Europe, which would reopen European sources of supply, **steel** mills in the U. S. expect to operate at full speed for many months to come. Several districts are already at capacity, and a number of obsolete plants will probably have to be brought back into service soon in an effort to avert serious congestion in deliveries.

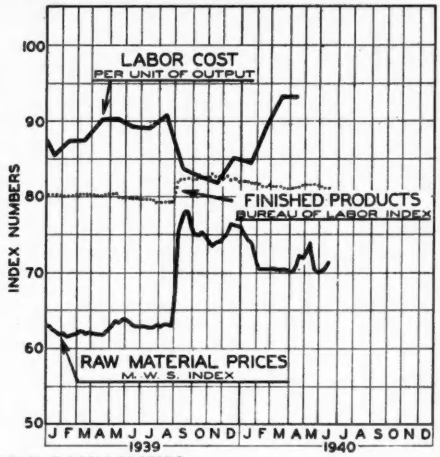
* * *

Owing to war uncertainties, President Roosevelt opposes further cuts in **oil** output now.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1936—100. (p)—Polk estimates. (pc)—Percent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

Commodity prices have drifted moderately lower during the past fortnight but the changes were of such slight consequence as to impart little or no direction to the trend. To all appearances price trends in many individual commodities are insulated against the inflationary implications of the war and continue to reflect normal supply and demand factors. Nor is this anomaly due to the absence of decisive developments in the war. In may be, however, that domestic commodity prices reflect doubts and uncertainties in the minds of traders and buyers as to the duration of hostilities. Recent events have seemed to bring closer the possibility of an early peace—which is another way of referring to an imminent German victory. Such an event would be almost certain to depress commodity prices. Even large scale defense preparations in the United States are not wholly bullish, implying as they do the possibility that price controls may be established. In this setting, wariness on the part of buyers is easily understandable.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1939, equals 100

	1940 High	1940 Low	June 14	June 21
28 Basic Commodities	124.2	110.0	110.8	111.2
Import Commodities	132.9	112.6	114.3	115.5
Domestic Commodities	118.7	108.4	108.6	108.5
Domestic Agricultural	123.3	111.7	111.7	112.2
Foodstuffs	120.0	105.4	105.4	105.9
Raw Industrial	128.4	107.0	114.9	115.2

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
July	June 22	10.50	10.51	9.35
October	June 22	9.41	9.40	8.79
Spot	June 22	11.02	11.11	9.90
(In bales 000's)				
Consumption, U. S.	May	636	624	605
Exports, wk. end	June 21	28.4	30.4	31.3
Total Exports, season Aug. 1 to	June 21	5,872.8	5,853.7	3,204.0
Government Crop Est. (final)	1939	11,817	......	11,943(ac)
Active Spindles (000's)	May	22,217	22,301	21,970
WHEAT				
Price cents per bu. Chi. closing				
July	June 22	79⅝	79⅞	68⅝
September	June 22	79⅞	80½	69½
Exports bu. (000's) since July 1 to	June 15	144,541	142,768	135,747
Exports bu. (000's) wk. end	June 15	1,773	3,257	3,352
Visible Supply bu. (000's) as of	June 15	87,286	90,562	61,238
Gov't Crop Est. bu. (winter) (000's)	June 1	488,858	......	563,431(ac)
CORN				
Price cents per bu. Chi. closing				
July	June 22	62¾	61⅝	47⅝
September	June 22	60⅝	60⅜	49¼
Exports bu. (000's) since July 1 to	June 15	27,299	26,374	68,449
Visible Supply bu. (000's) as of	June 15	23,197	23,009	32,534
Gov't Crop Est. bu. (000's) (final)	1939	2,619,137	......	2,562,197(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Despite the fact that it was being freely predicted that serious Allied reverses would depress cotton prices, such has not been the case. The entrance of Italy into the war and the surrender of France lopped another million bales of cotton off the export market. This is equivalent to about one-third of all cotton exports in the 1938-39 season. All French mills have fallen into German hands. The ability of prices to make headway against these developments reflects the encouraging domestic prospect. Consumption of 636,000 bales in May was considerably better than had been expected. June prospects are good and total domestic consumption this season may be the largest on record.

* * *

Wheat. Prices dropped sharply following the surrender of France but subsequently recovered a substantial portion of lost ground. The lateness of the crop has reduced hedging pressure and current prices are several cents below the current wheat loan level. Weather is assuming a more dominant role in the wheat prospect and recent reports have been rather on the unfavorable side. Crop scares and sharp rallies are to be expected.

* * *

Corn. Prices have followed the same general course as wheat. Commercial demand is well sustained and offerings have not been heavy.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	June 22	11¼	11½	10
Exports f. a. s. N. Y.	June 22	11.15	11½	......
Refined Prod., Domestic*	May	86,029	80,964	68,536
Refined Del., Domestic*	May	69,467	68,665	51,225
Refined Stocks, Domestic*	May 31	178,664	169,120	337,155
Copper Sales, Domestic*	May	84,086	41,701	59,026
TIN				
Price cents per lb., N. Y.	June 22	54.50	58.00	49.10
Tin Plate, price $ per box	June 22	5.00	5.00	5.00
World Visible Supply† as of	May	28.873	32,149	33,715
U. S. Deliveries†	May	7,905	7,855	5,905
U. S. Visible Supply† as of	May	21,625	18,455	10,096
LEAD				
Price cents per lb., N. Y.	June 22	5.00	5.00	4.85
U. S. Production*	May	46,268	35,423	46,006
U. S. Shipments*	May	46,919	46,496	40,124
Stocks (tons) U. S., as of	May 31	62,955	63,610	129,270
ZINC				
Price cents per lb., St. Louis	June 22	6.25	6.25	4.50
U. S. Production*	May	52,979	54,601	42,302
U. S. Shipments*	May	59,177	46,978	39,607
Stocks U. S., as of*	May	75,036	81,234	133,075
SILK				
Price $ per lb. Japan xx crack	June 22	2.73½	2.83	2.44
Mill Dels. U. S. (bales)	May	18,997	21,740	26,150
Visible Stocks N. Y. (bales) as of	May 31	43,285	42,698	24,201
RAYON (Yarn)				
Price cents per lb	June 22	53	53	51
Consumption (a)	May	32.1	30.7	26.3
Stocks as of (a)	May 31	12.2	11.7	41.7
WOOL				
Price cents per lb. tops, N. Y.	June 22	1.05	1.05	.84
Consumption, period ending (a)	May 4	17.5	17.7	19.6
HIDES				
Price cents per lb. No. 1 Packer	June 22	11½	10½	11
Visible Stocks (000's) as of	May 1	12,496	12,581	12,995
No. of Mos. Supply as of	May 1	7.19	6.78	6.70
Boot and Shoe Production, Prs.★	Apr.	31,019	34,551	33,058
RUBBER				
Price cents per lb	June 22	23.06	22.25	16.35
Imports, U. S.†	May	51,431	70,699	45,886
Consumption, U. S.†	May	51,619	50,103	45,484
Stocks U. S. as of	May 31	161,446	162,459	187,980
Tire Production (000's)	May	5,000(pl)	5,106	4,473
Tire Shipments (000's)	May	4,800(pl)	5,010	4,800
Tire Inventory (000's) as of	May 31	10,880(pl)	10,881	9,540
COCOA				
Price cents per lb. July	June 22	5.08	4.74	4.06
Arrivals (bags 000's)	May	271.6	212.3	416.3
Warehouse Stocks (bags 000's)	June 21	1,056.6	1,059.4	1,422.7
COFFEE				
Price cents per lb. (c)	June 22	7.50	7.25	7.50
Imports, season to (bags 000's)	May 1	12,762	11,569	12,624
U. S. Visible Supply (bags 000's)	May 1	1,640	1,362	1,451
SUGAR				
Price cents per lb.				
Raw	June 22	2.73	2.77	2.85
Refined (Immediate Shipment)	June 22	4.50	4.50	4.50
U. S. Deliveries (000's)*	4 Mos.	1,854.4	......	2,001.7
U. S. Stocks (000's)* as of	Apr. 30	2,319.4	......	1,995.1

PRESENT POSITION AND OUTLOOK

Copper. Late last week electrolytic prices were reduced ¼ cent to 11.25 cents. Recent softness in copper prices appears to have stemmed from apprehension as to the ultimate disposition of the undelivered portion of the French contract calling for the delivery of 25,000 tons monthly through November. Although indications are that Great Britain has assumed the bulk of the French contracts in this country, Britain is reputed to be well supplied with copper.

* * *

Tin. Reports of possible Japanese intervention in French Indo-China toppled tin prices £27 a ton in the Far East. The drop was not as precipitate in New York, and by the end of last week domestic quotations had risen to 54.50 cents. Offerings were light despite large arrivals.

* * *

Lead. Domestic stocks of refined lead declined 655 tons in May; shipments rose 423 tons; and production surprisingly was up 10,485 tons. Although recent sales have been light, consumers have covered nearly 90% of July needs.

* * *

Zinc. Fabricators are well supplied ahead and as a consequence recent market activity has subsided noticeably. Galvanizing operations in the latest week were up four points to 60%.

* * *

Silk. Deliveries of raw silk to American mills in May dropped to the lowest levels in twenty years. Japanese selling accounted for price declines of 4 to 9 cents at the week's close.

* * *

Rayon. World production of rayon last year increased 15% and set a new all-time record. While domestic production will probably record a further gain this year, the war will result in a substantial decline in aggregate world output.

* * *

Wool. Leading domestic fabricator has withdrawn fall prices pending complete allocation of government orders for fabrics. Government demands for defense purposes are materializing at a time when looms are seasonally active.

* * *

Hides. Prices have displayed a firmer tone and recent statistics have featured a continued decline in total visible stocks.

* * *

Rubber. Imports of crude rubber in May were down sharply from the near-record April level. Included were 13,451 tons consigned to U. S. Government under the cotton-rubber barter plan. Total imports for the first five months were 102,200 tons above the same period a year ago.

* * *

Cocoa. Prices have displayed strength reflecting fears that shipments of cocoa from West Africa may be disrupted. Cocoa from these territories accounts for 2/3 of the world's annual output.

* * *

Coffee. Official estimates place 1940-41 Brazilian coffee crop at 20,850,000 bags, which would compare with 21,861,000 bags for 1939-40.

* * *

Sugar. Passage of the Cummings resolution by the House, with limitations on imports of refined sugar from Porto Rico and Hawaii, has given encouragement to domestic refiners. The measure, however, must still be passed by the Senate and faces a possible Presidential veto.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. ★—Thousands.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	June 22	1¼%	1¼%	1¼%
Prime Commercial Paper	June 22	½-¾%	½-¾%	⅝-1%
Call Money	June 22	1%	1%	1%
Re-discount Rate, N. Y.	June 22	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	June 15	2,674	2,531	2,634
Cumulative year's total to	June 15	60,264	......	54,340
Bank Clearings, N. Y.	June 15	2,794	2,841	3,408
Cumulative year's total to	June 15	76,207	......	72,346
F. R. Member Banks				
Loans and Investments	June 12	23,661	23,527	21,878
Commercial, Agr., Ind. Loans	June 12	4,377	4,368	3,831
Brokers Loans	June 12	444	437	674
Invest. in U. S. Gov'ts	June 12	9,214	9,163	8,390
Invest. in Gov't. Gtd. Securities	June 12	2,400	2,401	2,108
Other Securities	June 12	3,578	3,528	3,283
Demand Deposits	June 12	20,615	20,306	17,212
Time Deposits	June 12	5,311	5,318	5,225
New York City Member Banks				
Total Loans and Invest.	June 19	9,241	9,307	8,135
Comm'l Ind. and Agr. Loans	June 19	1,672	1,668	1,372
Brokers Loans	June 19	294	312	517
Invest. U. S. Gov'ts	June 19	3,928	3,928	3,149
Invest. in Gov't Gtd. Securities	June 19	1,279	1,279	1,065
Other Securities	June 19	1,270	1,323	1,173
Demand Deposits	June 19	9,541	9,518	7,640
Time Deposits	June 19	668	670	623
Federal Reserve Banks				
Member Bank Reserve Balance	June 19	13,712	13,510	10,099
Money in Circulation	June 19	7,741	7,717	6,934
Gold Stock	June 19	19,769	19,427	16,060
Treasury Currency	June 19	3,011	3,009	2,873
Treasury Cash	June 19	2,204	2,220	2,566
Excess Reserves	June 19	6,770	6,610	4,230
NEW FINANCING (millions of $)				
Corporate	May	111.9	246.3	183.2
New Capital	May	29.2	53.9	21.7
Refunding	May	82.7	192.4	161.5

COMMENT

In the week ended June 19 last, gold stocks in the United States rose $342,000,000. This was the largest weekly increase since the revaluation of gold in February, 1934. Of the latest weekly increase $261,000,000 occurred on last Wednesday, the largest actual purchase of gold on a single day ever made by the United States. No official disclosure of this huge transaction was made, but opinion was to the effect that substantially enlarged purchases of war materials by Great Britain in the United States were at least partially responsible. It was also believed that French efforts to place gold and the resulting dollar balances beyond the reach of Germany were partly reflected in last week's gold transactions.

* * *

In view of the heavy inward movement of gold it's hardly necessary to reiterate that excess reserves have recorded another new high. On the other hand a new low was set in the amount of outstanding brokers' loans reported by **New York City Member Banks.** Now outstanding in the amount of $294,000,000, this is the smallest figure recorded in the Federal Reserve records, which go back approximately twenty years, and was about $11,000,000 under the 1932 low. Commercial borrowing from New York banks increased $4,000,000, the second consecutive weekly gain, and the total outstanding is now $16,000,000 above the June 5 low. Holdings of Treasury bills by New York banks rose $11,000,000 to a new high for the year at $409,000,000. Demand deposits were likewise at a new high.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1940 Indexes High	Low	June 15	June 22
309 COMBINED AVERAGE	67.1	45.3	49.2	49.3
5 Agricultural Implements	103.6	63.6	71.9	69.4
6 Amusements	28.8	15.8	16.5	16.2
15 Automobile Accessories	96.2	65.5	72.4	71.5
12 Automobiles	12.0	7.7	8.8	8.6
12 Aviation (1927 Cl.—100)	235.5	166.0	170.8	167.6
3 Baking (1926 Cl.—100)	12.3	7.9	9.0	8.9
3 Business Machines	117.3	75.1	79.1	81.3
9 Chemicals	174.1	120.5	129.2	129.4
20 Construction	33.6	19.4	21.6	21.1
5 Containers	251.1	168.6	186.9	189.2
9 Copper & Brass	103.6	68.2	75.9	71.3
2 Dairy Products	33.6	24.7	26.0	25.9
7 Department Stores	20.9	13.8	14.9	15.4
6 Drugs & Toilet Articles	58.4	36.1	38.6	38.0
2 Finance Companies	272.1	164.3	171.7	164.3x
7 Food Brands	117.8	78.4	86.8	87.7
3 Food Stores	56.1	37.7	41.1	41.3
4 Furniture	56.9	32.6	34.8	35.0
3 Gold Mining	968.7	551.4	576.2	553.2
6 Investment Trusts	24.5	15.5	16.3	16.0
3 Liquor (1932 Cl.—100)	164.2	109.1	113.2	116.4
9 Machinery	116.2	81.0	91.9	90.7

(Nov. 14, 1936 Close—100)	1940 Indexes High	Low	June 15	June 22
100 HIGH PRICED STOCKS	68.30	49.40	53.10	52.90
100 LOW PRICED STOCKS	58.80	36.43	41.44	41.69
2 Mail Order	94.9	63.8	70.8	72.5
4 Meat Packing	70.0	42.1	45.6	50.0
13 Metals, non-Ferrous	158.4	107.2	123.5	117.8
3 Paper	19.4	11.8	12.9	12.9
22 Petroleum	86.7	63.1	67.6	65.8
18 Public Utilities	57.6	35.1	38.4	44.3
3 Radio (1927 Cl.—100)	12.9	7.9	8.8	8.5
9 Railroad Equipment	53.2	34.3	39.7	39.0
22 Railroads	13.6	7.3	8.2	8.7
2 Realty	2.7	1.2	1.4	1.3
2 Shipbuilding	118.1	73.5	91.0	89.5
11 Steel & Iron	85.9	59.6	70.1	67.5
2 Sugar	32.7	18.3	20.9	20.0
2 Sulphur	180.2	135.4	154.8	150.7
3 Telephone & Telegraph	47.5	30.5	33.2	35.0
4 Textiles	57.3	36.2	41.1	44.3
4 Tires & Rubber	15.3	8.4	9.0	9.5
4 Tobacco	90.2	72.8	75.2	76.5
4 Traction	43.5	32.7	35.2	37.0
4 Variety Stores	248.3	177.2	193.1	191.3
20 Unclassified (1939 Cl.—100)	103.9	67.3	72.8	71.7

x—New LOW this year.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

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U. S. Industrial Alcohol

Do your security analysts regard U. S. Industrial Alcohol as substantially undervalued at its current price of 15¾? My 75 shares cost me 28. Is the company currently benefiting from the sale of alcohol for munitions purposes to the Allies? Does it stand to benefit from the U. S. Government program? What is the trend of the company's export business to South America? Is the company's diversified line of chemical products, especially plastics, proving profitable? Kindly advise.—G. J., Tampa, Florida.

Operations of U. S. Industrial Alcohol in 1939 were considerably improved over the preceding year and profits were equal to 20 cents per share on the capital stock as against a deficit of $1.71 per share in 1938. The company is the leading domestic producer of industrial ethyl alcohol, accounting for about one-third of total domestic sales. Anti-freeze accounts for about 25% of production. Most of the remainder is used in processing numerous products, such as lacquer, textiles, chemicals, varnish, soap, drug and food products. To lessen dependence on alcohol, the company has in recent years developed other chemical products such as synthetic resin and lacquer bases which now contribute about 40% of gross income and will probably account for a greater proportion in the future. The cost of molasses, the price structure of alcohol and volume of sales are the principal determinants of earnings. Price instability on alcohol limits profit margins from time to time but the growing importance of the chemical lines is likely to improve this situation over the longer term. Alcohol prices have recently been increased and sales were recently running about 31% ahead of a year ago. Accordingly, further improvement in earnings over coming months seems reasonable. It is not believed that the company has as yet experienced any sales for munitions purposes either to foreign nations or to the United States Government, but is in a good position to benefit from orders of this sort when and if placed. South American exports have recently increased with probable continuance of this trend over early months, at least. Finances continue to be quite satisfactory, the balance sheet as of 1939 year-end disclosing current assets of $9,787,716 as against current liabilities of $2,335,945. Dividends have not been paid on the common stock for the past few years and early disbursements are not looked for because of contemplated capital expenditures. Capital stock outstanding in the amount of 391,238 shares comprises the sole capitalization of the company. With indications pointing toward further improvement in earnings over coming months, the issue has a degree of attraction at current levels and we would advise its retention.

Loew's, Inc.

I am very anxious to know your opinion of Loew's market appreciation possibilities. The writer possesses 100 shares of Loew's common bought at 40½. Are current domestic revenues continuing to offset the loss of foreign markets? How will Loew's be affected if pending legislation requiring divorcement of movie production from distribution is passed? Is the company's theatre chain proving profitable? Is the stock likely to suffer from the fall-off in box office receipts during the summer months?—B. N., Spokane, Wash.

Loew's, Inc., has for some time past been a leading factor in the motion picture industry as a fully integrated producer, distributor and exhibitor of feature length pictures, shorts and newsreels. Theatres are located mostly in Eastern metropolitan centers. Normally about 30% of film rentals comes from abroad, and while revenues from Europe have been at lower levels, it is believed that domestic receipts and probable income from other foreign sources will likely offset these losses to a large degree over coming months. For the seven months ending in March of 1940, the company reported profits of $3.79 a share, moderately ahead of the $3.68 per

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share reported for the corresponding period of the preceding year. Profits depend largely on the ability of the management to judge the drawing power of its pictures, on public purchasing power and on foreign exchange fluctuations. The record of the company has been considerably better than most others in the field, earnings having been reported even during the worst of the depression years. Loew's owns a half interest in the phenomenally successful "Gone With the Wind" and its share of profits from this picture will likely be quite substantial. The pending anti-trust suit against this company and several other motion picture concerns has not been settled, but it is not believed that even an adverse decision would be seriously harmful to earnings. Finances of the company, according to the latest report, continue to be very satisfactory. The current 50-cent quarterly dividend rate on the common stock appears to be secure and extras from time to time in line with earnings are probable. The stock is one of the better situated in its industry and has a relatively good degree of appeal at current levels for both its longer term appreciation prospects as well as for the yield which is currently afforded. Accordingly, we favor retention of the issue.

National Gypsum

I anticipate the large volume of residential construction now under way to be reflected in the market appreciation for National Gypsum. Am I correct in my assumption? Will you kindly inform me of the status of order back-log: how the company's sales compare with cost of production, and the major expense item of shipping, and current prices for the company's product? Do you recommend holding 50 shares bought at 14½?—E. A. J., Sioux City, Iowa.

National Gypsum is the second largest company in its industry, producing lime, insulation material, gypsum, wire laths and other metal products, acoustical material and casein paints. About 95% of sales are in the residential building field. The trend to low cost homes has been beneficial to the company since the concern has devoted considerable effort to adapting products to this type of construction without cheapening quality. After reporting earnings for 1939 nearly double those for the preceding year, profits dropped in the first quarter of the current year and were equal to only 2 cents per share as against 10 cents per share in the first quarter of 1939. Sales volume was up about 12%, but the decline in earnings was due largely to unusual charges for repairs. Sales recently continued to show good gains and better earnings comparisons over coming months are looked for. In addition, profit margins have been improved and increased sales as a result of higher levels of residential construction are also expected to aid earnings. Competition in the industry is keen but not destructive and with better levels of business conditions is likely to become less intensified, with consequent further beneficial effect on profit margins. Finances of the company continue to be quite sound, the balance sheet as of December 31, 1939, disclosing current assets of $6,511,279, of which nearly one-third was cash, as against current liabilities of $1,329,024. While the near-term outlook for dividends is somewhat uncertain, full year distributions are likely to be in line with earnings. Increased diversification of markets and products as well as a continued good level of sales give this stock a fair degree of longer term appreciation possibilities and its retention accordingly is suggested.

American Smelting & Refining

I cannot understand the action of American Smelting & Refining, considering the large amount of business which should accrue to this company as a result of the war. Regarding this stock as a war beneficiary, I bought 100 shares at 42 earlier this year. Are there factors behind the scenes I ought to know about—in connection with the company's subsidiaries—competition from mining companies—lesser needs by the Allies than was anticipated? Should I continue to hold? —Dr. R. S., Denver, Colo.

American Smelting & Refining Co. is the largest factor in the smelting and refining of non-ferrous metals, handling such ores largely on a toll basis for others. Large mining interests are owned or controlled in this country and in Mexico, Canada, Newfoundland, Peru, Bolivia, Nicaragua, Australia and Arabia, but the bulk of properties are in the United States and income from foreign holdings is relatively small. Although earnings fluctuate sharply from year to year, in line with general business conditions, operations over the past few years have been quite satisfactory. Following a good gain in earnings in 1939, it was reported at the annual meeting that profits for the first quarter of 1940 were equal to $1.27 per share as against a profit of 94 cents a share in the corresponding period last year. Further extension of these gains is looked for over the intermediate future. Sales in both foreign and domestic markets are at relatively good levels and should continue so, given maintenance of satisfactory levels of general business activity. In spite of somewhat higher operating costs, profit margins are being well maintained. Finances continue in good order, the balance sheet as of December 31, 1939, disclosing current assets of $95,941,539 as against current liabilities of $23,338,997. The company has no funded debt outstanding, capitalization being comprised of 500,000 shares of 7% cumulative preferred stock followed by 2,191,669 shares of common. Current and prospective earnings indicate maintenance of the present 50-cent quarterly dividend rate per share on the common stock, with possible extras before the year-end as earnings warrant. The issue appeals to us as one of the more attractive in its group for the income afforded as well as its price appreciation possibilities and retention is recommended.

Remington Rand

Do your security analysts believe it wise to retain 300 shares of Remington Rand common, purchased last year at 17⅛? Are South American markets formerly dominated by German manufacturers proving a new major outlet for this company? I am also interested in knowing how extensively the company's new machines are being sold domestically, and the current trend of earnings from the company's regular line of typewriter supplies, filing, and visible index equipment.—E. S., San Francisco, Cal.

Remington Rand manufactures a full line of office equipment with typewriters and supplies, filing and visible index systems and cabinets accounting for about 75% of total sales. Other lines, such as tabulating machines, are becoming of increasing importance. Distribution is on a world-wide basis with exports normally accounting for about 35% of volume, although profits from this source have amounted recently to only 30% of profits due to adverse foreign exchange fluctuations. Earnings for the fiscal year ended March

31, 1940, were equal to 94 cents per share on the common stock as against 59 cents per share in the preceding fiscal term. Domestic sales during the fiscal year increased 7.9% but foreign sales decreased 6.6%. Foreign unit sales showed gains even after the start of the war abroad, but foreign exchange conversions offset these increases. Domestic orders in April were up approximately 14.7% over the same month a year ago while foreign orders were down about 8.9%, leaving a total increase in orders of about 6.6%. Accordingly it is expected that earnings for the June quarter will be below those of the similar period last year. However, the outlook for earnings over the intermediate term is somewhat obscure since an early and complete termination of the war abroad may result in a falling off of domestic sales due to a possible temporary let-down in business and competition in foreign markets would become increasingly severe. Finances, however, continue to be consistently strong and the latest balance sheet disclosed cash alone greater than total liabilities. For the time being, at least, it cannot be said that the 20-cent interim dividend is secure. As pointed out above, the intermediate outlook for earnings is somewhat uncertain, and retention would have to depend on the degree of patience the investor is willing to exercise.

Yale & Towne

Do you counsel holding 125 shares of Yale & Towne bought at 21¼? Is the company's electric truck division benefiting materially from war demand for trucks? Do you think substantial improvements can be expected in the company's building lines as a result of accelerated residential building, business activity and Government-sponsored plant expansion?—T. N., Chicago, Ill.

Yale & Towne ranks second in the domestic manufacture of locks and builders' hardware, and output of the company also includes a wide list of industrial products such as chain blocks, electric trucks, rotary pumps, auto locks and padlocks. Locks and builders hardware account for about twice the volume of sales of any other division, but profit margins are narrower than on industrial products. Foreign sales normally account for about 25% of total volume and a somewhat larger portion of profits. Earnings in the first quarter of 1940 were equal to 44 cents per share on the capital stock as compared with earnings of 1 cent per share in the same period a year ago. Sales of electric trucks are believed to have contributed importantly to these results and probably will continue to do so over coming months. Further improvement should also be noted as a result of increased buying for new construction, home repair and modernization and from industrial sources. Higher costs can doubtless be passed on to the consumer in the form of increased prices. A strong financial position has been consistently maintained and the balance sheet for the 1939 year-end disclosed current assets more than 8 times current liabilities. Capitalization is rather simple, capital stock outstanding in the amount of 486,656 shares having the sole claim on assets and earnings. Continuation of the current 60 cents per share annual dividend rate, with extras from time to time, is probable over coming months. With the outlook pointing toward further increases in earnings for the near term, the shares have a relatively good degree of appeal at current levels and we accordingly recommend retention.

American Snuff

Will you kindly give me your latest appraisal of American Snuff, common? My 75 shares currently show a paper loss from my price of 69. How are the price appreciation possibilities of this stock under current conditions? What is your opinion of the income potentialities of these shares in the future? I understand that your reply will give me a complete picture of the company's earnings trend and outlook, as well as all other pertinent information of importance to me as a stockholder.—C. C. S., East Orange, N. J.

In line with the experience of most companies in the snuff industry, American Snuff has had a rather stable earnings record over the past years and results in 1939 were equal to a profit of $3.03 per share on the common stock as against $3.32 per share in the preceding year. The company is the third largest domestic producer of snuff and accounts for roughly one-third of output of that tobacco product. The chief brands are "Garrett," "Honest," and "Dental," sold mainly throughout the Southern section of this country. Sales tend to be rather stable,

though increasing somewhat in periods of higher consumer purchasing power. Consequently, this factor, coupled with slightly lower tobacco costs, points toward continuation of the wide profit margins witnessed in the past and earnings should accordingly show improvement over coming months. Finances have been maintained in a consistently strong position, the balance sheet as of the 1939 year-end disclosing cash alone nearly three times greater than total current liabilities. Capitalization is relatively simple, there being outstanding 36,589 shares of 6% non-cumulative preferred, followed by 434,100 shares of common, and dividends have been paid on the junior issue without interruption since 1903. The strong finances of the company together with probable increases in earnings indicate continuation of the current $3 annual dividend rate which is increased from time to time by extras. At current levels, this issue affords a satisfactory yield and appears to possess moderate appreciation possibilities. Its retention is suggested, principally for the income afforded.

American Home Products

Is American Home Products especially vulnerable to unfavorable war developments because of the Company's interests in Great Britain and France? Or, do current and future domestic prospects in the drug, grocery or department stores fields indicate gains in sales and earnings of large enough proportion to be the dominant factors in the outlook for my 100 shares? My shares cost me 58½. —E. H., Dayton, Ohio.

American Home Products reported earnings for the first quarter of 1940 equal to $1.53 per share on the common stock as compared with $1.33 per share in the corresponding period last year. The company was organized in 1926 and since then has become the second largest manufacturer of proprietary drugs, cosmetics, baby foods and household products. Among its products are such well known brands as Kolynos Toothpaste, Anacin, Bi-So-Dol, Freezone, Clapp's Baby Food, furniture and floor polishes, insecticides, etc. Product diversification is quite extensive, but it is thought that no one item accounts for more than 20% of total volume. Sales are largely to the drug trade but also to department and grocery stores. Foreign sales account for only about 15% of the total and all of this is not in Europe. Consequently, the loss of business from that source should not be greatly harmful to the company. The manufacturing division in England is the only one in Europe and plans have recently been completed for transporting these operations to the United States. Foreign business of the company is more likely to suffer from fluctuating exchange rates rather than from possible loss of European markets. In this country, earnings from the medicinal products tend to be rather stable, while profits from the cosmetics and other lines vary with consumer purchasing power. Thus it appears likely that further earnings gains of at least moderate proportions will be shown over the coming months. Finances of the company continue to be very sound, and the balance sheet as of 1939 year-end disclosed a working capital ratio of about three to one. Dividend policy of the company has been fairly conservative over past years and it is likely that the $2.40 annual rate currently in force, supplemented from time to time with extras, will be continued. The shares have good growth possibilities over the long term and at current levels return a reasonable yield. Retention is recommended.

U. S. Tobacco

I am a stockholder in U. S. Tobacco to the extent of 125 shares of common acquired at 38¾. Do you think this stock to be among most desirable income producers under present war conditions? Does the company's brands, Copenhagen and Bruton's Scotch, still command nationwide supremacy? How are Dill's Best and Model Tobacco selling? Are appropriations for sales promotion resulting in greater sales; or drain on earnings?—A. G., Philadelphia, Penna.

U. S. Tobacco Co. is the largest producer of snuff, its distribution of this product being on a more nationwide scale than is the case with its other competitors. Its principal brands in this division are Copenhagen and Bruton's Scotch. In addition, Dill's Best and Model smoking tobaccos as well as Moose-Head, Right Cut and W. B. Chewing Tobacco are also among its products. Snuff accounts for the greater part of earnings but other products are becoming of increasing importance. Profit margins have been large and relatively stable, a condition common to most snuff producers. Earnings for 1939 were equal to $1.77 per share on the common stock, slightly higher than the $1.74 per share reported for 1938. Further improvement over coming months is distinctly possible in line with better levels of consumer purchasing power and somewhat lower tobacco costs. Finances continue to be maintained in a sound and liquid position, the balance sheet for December 31, 1939, disclosing cash alone well in excess of current liabilities. Capitalization of the company is relatively simple in that the 1,831,400 shares of common stock are preceded in the capital structure by only 93,200 shares of 7% non-cumulative preferred. Dividends have been paid on the common stock in each year since 1912, although at varying rates. Continuation of the current quarterly distribution of 32 cents per share with a year-end increase is looked for. With probable expansion over the longer term in sales of smoking and chewing tobaccos and well maintained consumption of snuff, the issue is an attractive holding for the yield afforded and its retention, primarily on that basis, is advised.

Ex-Cell-O

(*Continued from page 359*)

would appear to be a safe assumption that whatever loss of foreign business may be suffered by Ex-Cell-O will be more than offset by a larger volume of domestic business.

From an investment standpoint, the company's shares are favored by the fact that they comprise the entire capitalization—there is no funded debt, bank loans or preferred stock outstanding. Total number of shares outstanding at the end of last year was 394,750.

Last year on record sales of $6,608,151, the company reported an operating profit of $1,018,522, or slightly better than 15 per cent, which compared with sales of about $4,300,000 and a profit margin of about 12% in the previous year. Net available for the common stock in 1939 amounted to $872,382, or the equivalent of $2.21 a share, an increase of virtually 100% over earnings equal to $1.11 a share in 1938.

Thus, on an increase in sales of about 60%, the company was able practically to double its earnings, an achievement which undoubtedly reflects increased operating efficiency on expanding volume. This same combination of favorable circumstances promises to be an effective factor in current earnings, particularly as the substantially increased number of employees on the company's payroll at the present time acquire experience and efficiency.

In fact, concrete evidence in support of the promising current outlook is to be found in the company's showing in the initial quarter. Net profit in that period totaled $577,495, equal to $1.45 a share, and comparing with $149,771, or 38 cents a share in the corresponding months a year ago. Moreover, the latest quarterly dividend was at the rate of 60 cents a share, whereas the previous payment amounted to 40 cents. Dividends for all of 1939 amounted to $1 a share. Despite the probability that the substantially larger volume of business now on the company's books has increased working capital needs, dividends this year of at least $2 a share appear to be well within the realm of possibilities. Financial position at the close of 1939 was comfortable, with current assets showing a ratio to current liabilities of about 2 to 1. Cash amounted to only $327,629 out of total working capital of some $1,200,000.

The current market action of the company's shares has been particularly impressive. The low of 20½ was made on January 15, last, and the shares were one of a small minority of issues which failed to make new lows for 1940, subsequent to May 10. In fact it was on May 10, the day of the German invasion of the Low Countries and the beginning of a sharp decline in the market, that Ex-Cell-O shares made their current high of 34¾. On June 10, the stock market hit a new low for the year. On the same day Ex-Cell-O shares did not sell lower than 28⅝. As this is written they are selling at 31—less than 4 points under their high. In a market which has steadfastly refused to become optimistic over current industrial and earnings prospects, the action of Ex-Cell-O has been extraordinary, to say the least, and may be accepted as further evidence of the company's excellent prospects now.

The Problem of Canada

(Continued from page 347)

But should the government of Britain and the seat of empire come to Ottawa, new problems will arise. For us perhaps even more than for the Canadians, it will be a little like having the in-laws move in. As rightful head of the American household, the United States would remain dominant in the determination of western hemisphere policy in the Americas' then necessarily united front against the rest of the world—but how would the newly transplanted British government like it?

As we know from the crucial days of the first World War, unruffled Anglo-American relations in such a situation would call for the highest order of practical diplomacy. Though driven from their own land, the British would be far from defeated in spirit. With their taste and talent for government—especially should the British fleet then be based on Canada, constituting an important contribution on their part to hemisphere defense—they might understandably feel entitled to a larger voice in hemisphere affairs than we could wisely permit. The traditions of the New World are largely our traditions; and despite the ideological bonds that tie us morally to the Allies and their present cause, they are traditions that are not fully understood and appreciated even by Europe's democracies.

Even should the British government not cross the Atlantic, our relations with Canada would have to be reconsidered if Britain were to fall to Hitler but the British fleet were to escape and become a Canadian fleet. The Dominion would then become a completely independent nation in its own right and, more important, it would possess the one weapon of hemisphere defense that we should all so sorely need. We could not relinquish our position as principal protector of the hemisphere, yet we should of necessity have to frame our foreign policy as regards the world overseas with close reference to Canada's position in the matter. What could prove particularly embarrassing would be an insistence on Canada's part of continuing the

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war—for it could then only be a far-flung war at sea and a war of blockade, and we would be in it whether we liked it or not.

These are some of the problems we shall have to face as regards Canada if Britain goes down to defeat or, even though not defeated, if she transfers the government of the empire to the New World. Obviously, no hard and fast solution can be offered in advance of the event since the latter cannot possibly be foreseen in sufficient detail. It behooves our own Government, however, to anticipate the matter insofar as possible, and to formulate at least the outlines of a general policy with respect to our Canadian relations based on the alternative possibilities as they now appear. If the future of Canada lies within the orbit of the United States, the necessary economic adjustments will be far-reaching and, in some respects, difficult.

United Aircraft

(*Continued from page* 350)

and $1.52 earned respectively in 1938 and 1937.

The company's shipments in the three months ended March 31 topped $16,500,000 or a rate of better than $66,000,000 per annum. It is altogether probable, moreover, that in point of shipments the first quarter will be the smallest of the year; it would not be surprising to see sales volume for 1940 as a whole reach or pass the $80,000,000 mark as compared with sales of about $51,000,000 last year. The company's operating ratio—net to gross—was 14.2% in the March period this year against a figure of 18% for the whole of 1939; however, it is normal for the ratio to rise later in the year.

Principal bogey of the aircraft stocks has been the prospect of a tremendous falling off in their business with the termination of the war. As things are going at present, however, that does not appear to be a near term threat. It now seems pretty clearly indicated that if the Allies are to win it will only be after a long drawn out struggle during which they will certainly need more and more American aircraft. On the other hand, should Germany and Italy win, all the capacity that is now being used for the production of planes for Britain and France, and considerably increased capacity to boot, will be called upon for the purpose of strengthening our own air defenses.

Marketwise, United can be expected to move pretty much in accord with the aircraft group as a whole. It is somewhat less volatile than certain other issues due to a fairly heavy share capitalization—2,656,691 common shares, no senior issues and no funded debt—though in this respect it is better off than either Curtiss-Wright or North American Aviation. By and large, it may be said that United Aircraft is one of the most suitable of investment mediums in the aircraft industry. Investments in aircrafts, due to the tendency of competitive advantages to shift fairly frequently from one company to another, should be pretty well diversified. In the case of funds whose size makes this difficult or impractical, United, with its broad interests in all principal divisions of the industry, seems the most satisfactory answer.

As I See It!

(*Continued from page* 335)

more harm than any statesman in a hundred years. It is he who was held responsible for the failure to place sanctions on Italy during the Ethiopian crisis—who acquired great wealth and an Italian title during his tenure of office. At his door too is placed the difficulties with Belgium.

The abrogation of the Belgian-French mutual assistance pact took place during the time Laval was Premier of France, after a peculiar incident. It seemed that the belga had been sold heavily short—producing a severe crash—the day before France was to inform the Belgian government she would be unable to grant the loan requested! It is of such fabric that situations are made for good and ill—as the French knew to their great cost when the Belgian King surrendered to the Nazis.

It was Laval who was sent to negotiate with Mussolini prior to his entrance into the current war. He has just come from behind the scenes where he was one of those asking Italy for peace terms. Italy who has hardly fired a shot, while the French have the navy, the air force and the army to blow her to kingdom come, now that there is no need of defending Continental France which is lost for the time being.

The French decision to surrender is not made by a government which represents France, nor is England foolish enough to accept it as such. Besides as a defense measure it is essential, under these conditions, that the English control the French fleet, "capture" it if necessary, to prevent it from falling into German-Italian hands.

There is nothing that can be done about France itself at the moment. Its conquest by arms is an accomplished fact,—but if a British-French combination retains the navy with strong military and air positions in Africa—a beaten Germany may have to restore France itself at the proper time.

But even if Britain does manage to secure strategic power over the two fleets, she still has her own political house to set in order. Only a psychological weakness keeps Chamberlain in the Cabinet. So long as he remains England cannot hope for any advantages from Russia as Stalin distrusts Chamberlain and his clique — the appeasers of Germany. Yet it is Stalin who can turn the tide in England's favor in Turkey, the Black Sea, and even the Balkans at this late date should England's position again begin to show any strength. And Stalin has good reason now to be interested in a suitable British alliance. The speed of German conquest makes the Nazi-Communist pact look like a bad mistake for the Communists, and Stalin would like to retrieve his fortunes if possible.

It was particularly significant that Stalin was left out of the recent conference between Hitler and Mussolini although the disposal of the Balkans was being discussed between these two dictators. Nor does the proposed Nazi economic conference to plan five zones in Europe under German hegemony include the Russians. There has been definite German resentment over Russia grabbing the Baltic States with its implied control of the Baltic Sea.

By himself Stalin cannot do a

great deal if Germany makes demands on him for the Ukraine today. I doubt if he would be in a position to resist in spite of his manpower in millions. However, with Chamberlain out and a strong English-Russo-Turkish-Colonial French combination,—he would be willing to take the risk and expand his manpower. Under these circumstances, a Pan-Slav movement could be expected to bring Rumania, Jugoslavia and Bulgaria into the Allied bloc regardless of present commitments to the Nazis.

As I have said in a previous editorial, the way to Germany is through Italy and Russia—before it is too late.

And What of the United States?

As far as this country is concerned, it must be evident now that to defend America we must aid Britain. Today England is an important part of our own military system because of the element of time necessary for us to rearm. The destruction of the British Navy would leave us open to attack on the Atlantic and weaken us on the Pacific.

At the moment we are confronted with a new Nazi imperialism of a character so dangerous to the United States economically and politically that our previous conception of British imperialism must go by the board.

If Hitler wins we would be threatened with the complete destruction of our economic system and with resultant political repercussions of which a strongly organized fifth column could readily take advantage. We need strong leadership—leadership that is not merely seeking power, but dedicated to the service of these United States—above party interests.

We should not trust any party or any candidate who is not willing to subordinate everything else to the good of the country. Because regardless of who is nominated and elected this fall—whether Republican or Democrat—on the present Government is going to fall the burden of conducting affairs in these critical times—until January 1st at any rate. And we want the Government as strong as is possible because we cannot afford to let matters stay in abeyance until the new candidate and party are in office in these days.

Thus the attacks by Republicans on Stimson and Knox are certainly out of order. It must have taken a great deal of courage on the part of the President to make these appointments in the face of opposition from his own constituents. So much for domestic politics.

Economically:—The plan for economic mobilization of the Western Hemisphere is an important step in the right direction. Let us not forget that even in this instance the machinery set up by Britain for conducting world finance and organizing and managing commodity markets will be of the greatest assistance to us. It is this organization intact with its vast ramifications throughout the world, and established contacts everywhere, that Germany would like to take over. For to build machinery to equal it would take a longer time than the Nazis have in view of the destruction they have wrought everywhere—the famine and disease already staring conquered Europe in the face.

If Germany wins a complete victory, the next step will be an attempt at economic penetration of the Western Hemisphere for food, raw materials and markets. The greatest head-on economic struggle in the annals of American history.

These are the problems that are before us today, and on the sincerity with which we approach them will depend the future of the United States—whether we remain free men or become slaves of the Nazi machine.

Third Quarter Business Outlook

(*Continued from page* 340)

trucks was 1,116,000 units in the fourth quarter, 1,259,000 in the first quarter and will approximate 1,200,000 units for the second quarter. In the light of this record, the sharp fluctuations shown in some widely published "adjusted" indexes of motor production will seem somewhat curious to lay eyes. Due to large dealer stocks and the contemplated lengthy changeover period, third quarter output probably will be less than 700,000 units and may be as low as 600,000. The lowest of these estimates, however, would represent an unfavorable business development only in a statistical sense—a downturn severe only because steady production over the nine months now ending rolled out the large total of 3,575,000 cars and trucks. With the third quarter estimates heretofore ventured, output for the 1940 model year will be between 4,175,000 and 4,275,000 units—not half bad but well under peak years.

From here on the description "automobile industry" will be inadequate. More apt will be "automobile and national defense industry." Here, in a relatively small number of huge and marvelously efficient plants, is the world's greatest concentration of metal-working facilities both human and machine. Here is the very epitome of America's mass-producing genius. What it can do—and do speedily—for national defense is limited chiefly by the bureaucratic bottlenecks at Washington, the bottlenecks which are delaying actual placement of orders.

Neither in the third quarter nor any later quarter can this or any other industry go full steam ahead on national defense work until the Government decides what it wants and how much.

Will Tin Shortage Blackout Can Companies?

(*Continued from page* 358)

operating results have been running ahead of last year, for the whole of which the company reported net income equal, after dividend requirements on the non-callable $7 preferred, to $6.22 per share, the best figure since the $6.72 earned in 1934. The current $4 dividend is well covered, the margin between earnings and distributions to stockholders suggesting the possibility of a year-end extra should the outlook at that time be encouraging.

For the twelve months ended March 31 last, Continental reported a profit which, after provision for dividends on the $4.50 preferred, amounted to $2.80 on the common. This compares with $2.19 for the same period a year earlier and $2.71 for the calendar year 1939. The company followed American's lead in reducing 1940 can prices moderately, as well as providing for a 2% rebate on packers' can, a practice instituted last year; barring a rise in tinplate prices, however, larger volume should continue to result in improving earnings, though, as in the case of any other domestic corporation at this time, the effects of increased taxes to be levied in connection with the emergency armament program must be reckoned with.

In conclusion, the possibility of a tin squeeze, though not yet a probability, is a factor to be borne in mind as regards the can companies. For even should these concerns themselves turn to the production of substitute containers, they would sustain substantial equipment and machinery costs and require a considerable period of adjustment. On the other hand, it would probably be a mistake to attach too much weight to the possibility of interrupted tin supplies — as matters stand today, the odds are still against it.

Revolution in Rubber?

(*Continued from page* 353)

industry with growing outlets until such time as costs are sufficiently low to permit it to enter the casing and tube markets on a competitive basis with natural rubber.

It has never been meant to infer that the development of synthetic rubbers was not a remarkable feat and that it lacks economic signficance but it is likely that the immediate possibilities have been heavily overemphasized.

Apart from the recent furore over the introduction of a tire made by Goodrich of Ameripol, news of the tire industry has been relatively thin. Tire shipments in 1939 were nearly 57,000,000 units and were about 32% greater than in the previous year. Of this amount about 37,537,000 or 66% were for replacement and were 23% higher than a year ago. Despite the fact that retailer stocks are heavy, production continues at relatively high levels with April's crude rubber demand being approximately 10% higher than a year ago. At the end of April the industry had about 162,282 long tons of rubber on hand and there were then 102,557 long tons of rubber afloat enroute to this

country. While stocks on hand were about 14% lower than in April, 1939, stocks afloat were almost double those of the year before and their combination gave the industry at least a four months visible supply of crude rubber.

B. F. Goodrich Co., because of its declining dependence upon tires and tubes alone for sales volume will probably do equally as well as a year ago despite the fact that 1939 earnings of $2.51 a share included a non-recurring profit of $0.23 a share in the first half of last year. The new synthetic rubber product is of longer term importance and in part compensates for the lack of large foreign rubber plantations.

Goodyear Tire & Rubber has been modernizing plants and equipment with the result that operation efficiency has been markedly better. Ownership of extensive rubber plantations supply a small part of the company's crude requirements and thus gives some control over crude rubber costs. Over the longer term the amount of rubber obtained from the company owned plantations should increase considerably. Because of large manufacturing interests in Canada, England, Argentina, Australia and Brazil as well as Sweden, exchange rates are often detrimental to profits and it is this factor that constitutes one of the major uncertainties for the company.

U. S. Rubber Co. is continuing its comeback and is in a strong trade position. The company has been making a better than average showing in replacement sales and is expected to obtain its full share of the expected increased new equipment sales as well as the better demand for non-tire materials. The company's large plantations are now supplying the company with about 20% of its crude rubber needs and thus gives an effective check upon any price rise while at the same time insuring the continuation of satisfactory profit margins. That U. S. Rubber has no commercial plant for the production of synthetic rubber is of no particular importance at this time and should it become a necessary product later on, U. S. Rubber can either build its own production facilities or purchase required amounts from outside producers whose number is likely to increase. It is probable that the $3.12 a share of common stock earned last year will be exceeded by a fair margin for second half 1939 earnings of $1.94 a share included an adjustment for foreign exchange which is not likely to recur this year in quite as large amounts.

Westvaco Chlorine

(*Continued from page 367*)

Carbide until 1947. Although this contract continues to be a major feature in the company's business, its relative importance to Westvaco has been steadily declining with the development of new products and outlets. The cost of more extensive research activities in connection with these new products has, of course, tended to restrict profits to some extent but there is every indication that company now is more than getting its money's worth.

The last time that Westvaco operated at a deficit was in 1926, and dividends have been paid in every year since 1927. In 1932, the worst year of the depression, and with sales down to $3,200,000, earnings were $381,222, and 80 cents a share was shown on the company's common stock. By 1935, however, sales had passed the previous peak set in 1929, and in *every* year since 1935 sales have attained a new high level. It is only necessary to recall the sharp fluctuations which occurred in the earnings of many another large industrial enterprise during this same period in order to appreciate the extent of the progress which Westvaco has been making in recent years.

Last year the company's total sales amounted to $10,802,534, an increase of close to $1,500,000 over the volume for 1938. The increase in net profits was even more impressive, last year's figure of $1,275,-078 having represented an increase of better than 50% over 1938. After allowance for preferred dividends, earnings available for the common stock were equal to $2.91 a share, comparing with $1.52 in 1938 and $1.46 in 1937. In the years prior to 1936, only a conservative portion of the company's earnings were paid out in dividends, larger payments having been withheld for the purpose of building up working capital. In 1937 and 1938 total dividends to common stockholders amounted to $1. Last year common stockholders received $1.85 and thus far in the current year two payments of 35 cents each have been made.

Profits have continued to rise this year, net of $360,596 in the first quarter having been equal to 85 cents a share for the common stock, as compared with 51 cents a share in the same period of 1939. For the first half year, per-share earnings promise to be between $1.65 and $1.75 a share, suggesting that current dividends this year will at least be on a par with those in 1939.

The company has no funded debt and ahead of the common stock are only 192,000 shares of 5% preferred stock, par $30. The preferred shares are convertible, share for share, into the common stock until September 1, 1940, and until September 1, 1942, into 9/10ths share of common. Current assets at the end of 1939 totaled $3,924,000, while cash and marketable securities amounted to nearly $2,000,000. Current liabilities amounted to only $658,833.

The company's preferred shares qualify as a sound investment issue and at recent levels around 34 are selling to yield nearly 4.5%. Moreover, the conversion feature might conceivably prove valuable in the months ahead. By the same token, the common stock, among representative chemical issues, would appear to offer well founded investment inducements, both from the standpoint of current income and potential price appreciation.

Where Do the Baking Companies Stand Today?

(*Continued from page 361*)

Lard supplies are heavy for the present due to large slaughtering of meat animals which provide lard, but these offerings are heavy only because the subsequent cost of production is likely to be high. Later in the year shortening supplies are likely to grow scarcer and, of course, prices will probably advance. The baking companies manage to offset some of the fluctuations in the prices of raw materials through hedging, but as the sharp bulge of September, 1939, had a drastic effect upon profit margins, so is it likely that any heavy increase in costs during the coming year will also have its repercussions upon current year earnings.

The three leading baking companies—Continental Baking Corp., General Baking Company and Purity Bakeries Corp.—are well founded financially and operate in approximately the same manner with very similar margins of profits. From the standpoint of sales volume and invested capital, Continental Baking is the largest of the three while the other two are approximately equal in size, although somewhat smaller than Continental. All three of the companies face similar problems and their products enjoy an equally good reputation throughout the country.

Continental Baking did a fairly large volume of business last year, but higher costs and lower profit margins held the net income down to about $3.32 a share of "A" stock, as compared with $4.20 a share the year before. The first quarter of this year resulted in a loss of $1.34 per share on the Class "A," as against a deficit of 67 cents on that issue in this similar period a year ago. However, the outlook for the balance of the year is somewhat better and it is likely that full year 1940 results will be somewhat of an improvement over those of a year ago. Due to the still large accumulations on the preferred stock, however, the "A" stock is probably remote from any dividend distribution.

General Baking's first quarter report for this year showed 7 cents a share of common stock earned, as compared with 4 cents a year ago. Because of the expense of instituting a new bread route and the need for higher bread prices it is not likely that any gains in earnings, similar to the percentage increase of the first quarter, will be apparent through the balance of the year.

Purity Bakeries, while the first 16 weeks of 1940 resulted in a profit of but 37 cents a share of common stock as compared with 51 cents a share for the same period of last year, will probably make a somewhat better showing for the remaining 36 weeks. This assumption is based upon the importance of cake sales to the company and the belief that public buying power will be sufficiently higher to find reflection in somewhat better profits and earnings for the company.

Loose-Wiles Biscuit Co., the smaller of the two largest national biscuit bakers, reported a modest gain in income last year over that of a year ago. Unit sales were, however, substantially higher and now that prices have had a chance to come more into line with costs on the luxury lines, it is probable that this year will witness further modest gains in income. First quarter earnings this year, for instance, were equal to 45 cents per share on the common, as against 33 cents per share a year ago. At any event, the current dividend rate of $1 a share is apparently secure and, while the stock lacks dynamic appreciation possibilities, it is moderately attractive as a fairly stable producer of income.

National Biscuit, the largest of the group, increased tonnage sales about 7% last year, but dollar volume rose only slightly. About 12% of last year's income was derived from foreign sources, but whatever the loss from that source may be this year it is expected to be made up in part by better domestic demand. First quarter results in 1940 were equivalent to 38 cents on the common, as against 40 cents per share in the similar period last year. The outlook for the balance of the year is at least one of maintained profits, although the current dividend rate will not be covered by a substantial margin.

In the case of all of the baking stocks the longer term prospects are highly uncertain and, despite the good average dividend return, market prices of the shares are likely to reflect the unpredictable future rather than the attractive current income.

Six Safe Stocks for Income and Protection

(*Continued from page 366*)

mon stock has remained fairly constant due to the issuance of additional common stock for conversion of outstanding debentures. Thus, first quarter 1940 operations resulted in net income of $0.75 a share as compared with $0.74 a share a year ago but there were 12,119,312 shares of common outstanding at the end of March as compared with 9,105,791 at the close of the first quarter of 1939. For the same reason, net income for the 12 months ended April 30, 1940, was equal to but $2.29 a share of common stock as compared with $2.30 a share for the similar 12 month period of a year ago despite the fact that net income was substantially higher in the 1940 period.

In recognition of the increasing proportion of gross income that is accruing to the equity issues through better business and smaller interest charges, the directors increased the common dividend rate from $1.60 a year to $1.80 yearly with the last payment in 1939. This rate has since been maintained and coupled with the favorable price of the shares has materially aided in further conversion of the debentures. Over the longer term it is likely that the rate will be moderately bettered although it will probably be when the balance of the convertible issues outstanding has grown small.

For a public utility company where the need of extensive cash and working capital is not great, the company maintains an astonishingly strong current position. At the close of 1939, unearmarked cash and government securities totalled more than $67,000,000 while additional cash items — including earmarked and deposited sums, brought the total of all cash items above $75,000,000. Cash items alone were nearly double total current liabilities.

For Profit and Income

(*Continued from page 363*)

preferred dividend requirements—bids fair to improve on that showing in the current quarter. The same applies to **Carpenter Steel**, which reported profits of $1.27 a share for the March quarter (third quarter of its fiscal year) as compared with only 38 cents a year earlier; the company is currently planning the construction of a new $200,000 wire mill. **Vanadium Corp.**, which reports only semi-annually, is expected to show a substantial earnings increase for the period now ending over the $1.01 per share netted in the initial six months of 1939; this concern has recently developed an interesting group of "Grainal" alloys that permit more positive results in the steel making process—addition of comparatively small amounts to carbon or low alloy steels results in an end product of unusual hardness and other desirable characteristics.

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